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Drivers of customer equity in the South African retail banking industry.

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Drivers of Customer Equity in the South African Retail Banking Industry

Mind Mabhunu

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2012

ABSTRACT

The South African retail banking industry is facing new competitive challenges. The Competition Commission and the Treasurer are currently investigating ways increasing competition in the South African banking industry. It is expected that recommendations will be made resulting in changes to some of the operational and pricing aspects of the industry to make it more competitive. Another challenge is that customers increasingly expect banks to offer value that is comparable to the high cost of banking. This research report investigates the drivers of Customer Equity in the South African retail banking industry, and ranks these in order of importance. The research focuses on the four big banks: Standard Bank, ABSA, First National Bank and Nedbank.

A review of the literature on Customer Equity highlighted three key drivers, which are: value equity, brand equity and retention equity. The focus groups validated these drivers as well as identified 19 sub-drivers. 192 Respondents were asked to rate the importance of the sub-drivers on a scale of 1-5 and then rate the performance of their banks on these drivers. A Principal Components Analysis was used to analyse the results of the quantitative survey and determined the relative importance of each of the sub-drivers as well as the performance of South Africa's Big Four banks.

Value Equity was found to be disproportionately more important compared to Brand and Retention Equity. The most important sub-driver was Reliability of banking systems, which is a sub-driver of Value Equity. Recommendations are made on how South African Retail banks can improve their marketing strategies to maximize Customers Equity. These recommendations are based on the relative importance of the identified sub-drivers as well as the performance of the banks.

DECLARATION

I, Mind Mabhunu, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Mind Mabhunu

Signed at ……

On the …….. day of …… 2012

DEDICATION

To my wife, Evelyn, and my daughters Tawana, Mupindishe, Mukundi, and Tanatswa; for all the sacrifice they have made and their support.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the Study

The purpose of this research is to identify the main drivers of Customer Equity and evaluate the relative importance of these in the South African retail banking industry. The results of this study can be used by South African retail banks in managing customers for value and in maximising Customer Equity in the changing and competitive environment.

1.2 Context of the Study

The market value of South African Retail Banks is a multiple of the book value of these firms. For example, as of December 2010, ABSA's net book value was R62 billion compared to the market capitalisation of R100 billion (ABSA, 2011). Standard bank's net assets were valued at R 103 billion compared to the R170 billion in terms of market capitalisation (Standard Bank, 2011). In both examples, the intangible assets account for almost 40% of the value of the firm. In the United States, the market to book value of the largest 500 firms is almost six times that of the book value. This difference between net book value and market value expresses the value of these firms' intangible assets.

The traditional financial metrics, such as stock price, margins and aggregate profits are regularly measured and reported in yearend financial statements. Analysts have also started measuring and reporting the brand value more consistently and widely. The respective brand value of South African banks and other big firms in South Africa have been widely evaluated and valued. In 2010, Brand Finance Global Banking 500 valued the Standard Bank Brand at R2.3 billion and the ABSA brand at R1.5 billion (Bizz Community 2011a). These traditional metrics are, however not, enough to show the value of customers to

firm as well as show the return on marketing investment. The increasing pressure to make marketing more accountable means that more focus is put on measuring Customer Equity that is a result of marketing efforts.

According to Gupta and Lehman (2003), it is generally acceptable that Customer Equity accounts for a sizable portion of the intangible assets that drives up a firm's market value. However, the focus on valuing of Customer Equity by firms has been very minimal, if at all (Gupta & Lehman 2003). The recent improvements in information technology (IT), Customer Relationship Management (CRM) and modelling have gone a long way in making sure that Customer Equity can be estimated with a fair amount of accuracy. The modelling uses revealed preferences, not just purchase intentions, to measures the future value expected from future purchases (Gupta, Hanssens, Hardie, Kahn, Kumar, & Lin 2006).

Firms that measure and track Customer Equity are likely to be more customer-centric than those that do not. These firms view customers based on their end-to-end relationship with the firm and not just the individual's transactions. However, full customer centricity will only be achieved when investment on Customer Equity is capitalised in the same way as investment in R&D is capitalised (Buttle 2009).

This research is conducted at a time when the Competition Commission and the Treasury are looking at ways of making the SA banking industry more competitive. The commission is of the opinion that customers remain with their banks mainly because of the artificial switching barriers that make switching difficult and not because they are receiving the most competitive value (Jali, Nyasulu, Bodibe & Petersen 2008).

The Competition Commission has made it clear that the banking regulators need to introduce measures that will remove the artificially high switching costs so that customers can easily change from banks that do not give them the good

value to those that provide more competitive value (Greenberg & Simbanegavi 2009). The treasury is already considering account number porting, which has already been introduced in the telecoms industry in South Africa and in the banking industry in some countries. This will significantly reduce the current artificial switching barriers that exist (Fin24 2010). If customers can change banks without having to change their account number, then the burden of all the changes associated with a change in an account number is removed. In a pre-emptive move ahead of this anticipated change, most of the South African retail banks have implemented services that make switching easier. All the Big Four banks now offer salary switching, debit order switching and other services that make it easy for customers to switch their transactional accounts and link all their related services at one visit to the bank (Fin24 2010).

Consequently, the South African Banking industry is entering an era where customers will be sensitive to the value they receive from their bank and can easily switch between banks if necessary. The banks that do not deliver real value are faced with the real risk that current relationships with customers can potentially disintegrate into a series of discrete transactions, and customer loyalty is very low. The best way for banks to retain customers and acquire new customer is to deliver services that meet customer needs and demonstrate superior value than their competitors.

In order to deliver superior value, it is imperative for the banks to understand the drivers of value from the customer's point of view. This study seeks to identify the main drivers of Customer Equity and the sub-drivers that banks can focus on in creating customer value. Since customers derive different levels of satisfaction from different drivers, the relative importance of each of the value drivers should dictate the amount of focus put on delivering that value (Rust, Zeithaml, &Lemon 2000). The sub-drivers of value are ranked to help banks to prioritise their Customer Equity investment and marketing focus.

Lastly, the current performance of each of the main retail banks is measured relative to customer expectations. The results of this performance evaluation can be used by the banks to priorities the important drivers on which they are performing significantly lower than customer expectations.

1.3 Problem statement

1.3.1 Main problem

The research problem is to identify the main drivers and the sub-drivers of Customer Equity and their relative importance within the South African Retail Banking industry, and measure the performance of the major South African Banks against the drivers and relative to each other.

1.3.2 Sub-problems

Sub-problem 1: The first sub problem is to determine the drivers and sub-drivers of Customer Equity within the South African retail Banking Industry.

Sub-problem 2: The second sub-problem is to determine the importance of the drivers and sub-drivers relative to each other.

Sub-problem 3: The third sub-problem is to determine the performance of the four biggest retail banks against the sub-drivers and relative to each. The Big Four banks in SA are: Standard Bank, First National Bank (FNB), Amalgamated Banks of South Africa (ABSA) and Nedbank.

1.4 Significance of the Study

This study adds to a body of the knowledge on Customer Equity. It identifies the main drivers and sub-drivers of Customer Equity for South African retail banking

customers and the importance of each of the identified sub-drivers. The study addresses a current business problem that was introduced by a changing business environment. On one hand, the Competition Commission and the Treasury are introducing measures to increase competition in the banking industry. On the other hand, customers are becoming increasing more sensitive to the value deliver by their banks, in light of the perceived high bank charges. Retail banks need guidance in maximising Customer Equity in order to increase their acquisition and retention capability in a competitive trading environment.

A number of studies have been conducted previously on the subject. These include the application and modelling of Customer Equity in general (Berger & Nasr 1998, Rust, Zeithaml, & Lemon 2000, and Rust, Kumar & Venkatesan 2007), and the selection of customers based on total Customer Lifetime Value (Venkatesan & Kumar 2004). Other studies have focused on specific industries for example; South African Airline industry by Daines (2007), the South African Fast Moving Consumer Goods (FMCG) industry by Khatri (2010), The United States Retail Banking industry by Armstrong and Seng (2000) and the Ghanaian Retail Banking industry by Narteh and Owusu-Frimpong (2011). There are also studies on the South African Retail Banking industry, but they have focused on specific segments. These include the SME segment by Bick (2007) and university students by Chigamba and Fatoki (2011). This study focused on Customer Equity for personal customers of the South African banking industry and how the industry can benefit from understanding these drivers of Customer Equity.

The study provides guidance on driving a customer-centric approach to Customer Relationship Management (CRM) in banking industry. Customers are the main source (and in most cases, the only source) of cash flow for the firm, therefore, the firm builds value through building Customer Equity (Vogel, Evanschitzky & Ramaseshan 2008). This understanding helps firms to manage customers as valuable assets.

The drivers of Customer Equity need to be managed based on their relative influence to the value of the customer. More focus is put on the drivers that have a bigger influence on Customer Equity (Rust, Lemon and Ziethaml 2004). Retail banks, like other service companies, derive their revenue from the creation and sustenance of long-term relationship with customers. An understanding of the relative importance and the relative sensitivities of the drivers of Customer Equity will assist in driving marketing strategies that build shareholder value (Rust, Lemon & Ziethaml 2004). Hence, the marketing investment on drivers that have a high influence and high sensitivity on Customer Equity will lead to high Return On Investment (ROI). Investment in drivers with a low influence on Customer Equity will lead to a low ROI.

This study is on the performance of the main South African retail banks on each of the drivers as measured against customer expectations.

1.5 Delimitations of the study

This study is specific to the South African Retail Banking industry. The recommendations in this study may be applicable to the retail banking industries in other countries; however, one needs to take into account the differences in market conditions and customer profiles.

The study focuses on the personal retail banking customers. Retail banking customers include ranges from entry level customers with very low irregular incomes to private banking customers with high net-worth and complex banking needs. The entry level customers have very basic banking needs and their profit contribution is very low if anything. Banks extend banking services to these customers in terms of the financial service charter. One of the goals of the charter is to make financial service and financial education accessible to all South Africans. Private banking customers normally are normally given

personalised services by the banks. Both entry level and private banking customers are excluded from this study.

The research sample used has a higher sample of Standard Bank customers compared other banks' customers. At the time this research was initiated, the researcher was an employee of Standard Bank. This made it easier to get Standard Bank customer details that it was to get details of other bank's customers. Since it is easier to get the details of Standard Bank Customers, the sample is split 50% Standard Bank customers and the other 50% is spread across the FNB, ABSA, and Nedbank.

1.6 Definition of Terms

Customer Lifetime Value (CLV). The discounted future income derived from acquisition, retention and expansion projections less the associated costs (Gupta, Lehmann, & Stuart 2004, p7).

Customer Equity (CE). The sum of all the Customer Lifetime Values of the firm's current and future customers (Bick 2009, p120).

B-to-B Marketing. Marketing where the good and service are acquired by an organisation that uses them in the production of other products and services (Kotler & Keller 2009).

B-to-C Marketing. Marketing where the good and service are acquired by end users for consumption (Kotler & Keller 2009).

Retail Banking. Banking services that are offered to individual customers through local branches of the bank. Examples of retail banking services include checking and savings accounts, credit cards, personal lines of credit, mortgages, and so forth. Retail banking contrasts with commercial banking, which primarily offers services to businesses (Croxford, Abramson & Jablonowski 2005).

1.7 Assumptions

The main assumption is that the South African retail banking sector is facing a different competitive environment where customer will be in a position to easily compare the value delivered by different banks. Customers will be able to easily switch their accounts from banks that do not deliver value to banks that deliver better value. This is expected to result in an environment where customer acquisition and retention will be achieved by delivering customer value that can be demonstrated to be superior to competitors.

It is assumed that the customers have the same understanding of what each of the drivers mean and that customers are objective in their ranking of the banks' performance.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The market value of the largest 500 corporation in the United States is almost six times the book value. The difference between the market value and the book value illustrate the value of the intangibles which can be divided between Brand Value and Customer Equity (Gupta, Lehmann & Stuart 2003). The same concept applies for South African Banks, albeit at a much smaller scale. As of 31 December 2010, ABSA's net book value was R62 billion compared to the market capitalisation of R100 billion (ABSA 2011). Standard bank's net assets were valued at R 103 billion compared to the 170 billion in market capitalisation (Standard Bank, 2011).

Thus the Customer Equity and Brand Value are among the most valuable assets of a firm. While many firms and analysts put a lot of focus on understanding and valuing their brands and products along with other assets, the same focus is not placed on valuing Customer Equity. Customer Equity is defined as the sum of the Customer Lifetime Values of current and future customers is a strategically important asset which firms should do more to understand and value (Gupta, Lehmann & Stuart 2003).

The literature review starts with a brief overview on the South Africa Banking industry. This section sets out the context of the industry in which this study is conducted, and the benefits that the South retail banking industry is anticipated to derive from this study. The bulk of the literature review focuses on both the supply side and the demand side models of Customer Equity. Since this study is on the drivers of Customer Equity, more focus is placed on the demand side models.

2.2 The South African Retail Banking Industry

The South African Banking Sector is made of 17 registered banks 2 Mutual banks and one co-operative bank. There are 12 local branches of foreign banks that serve expatriates and are not open to South African citizens. There are also 43 foreign banks that have approved local representative offices; most of these banks are still exploring opportunities for establishing themselves in South Africa or have limited their activities to providing advisory services only.

Notwithstanding the number of banks operating, the industry is concentrated with four large banks (Standard Bank, ABSA, First National Bank and Nedbank) that dominate the Retail Banking industry and taking up more than 80% market share (SARB 2011). These four big banks have benefited from the Reserve Bank's 'four pillar policy' which ensures that the industry relies on four substantial pillars (the four big banks) and discourages mergers between any of these four banks. The primary reason for this policy is to maintain high levels of competition, and also systemic and prudential stability (Mboweni 2004).

The industry is very competitive with significant differences in price levels and products benefits across accounts and other service offered. (Jali et al 2008). Notwithstanding the competition that currently exists in the South African banking industry, the Competition Commissions is of the opinion there are some aspects in the banking industry that allow for the sustainability of supra-competitive prices. For example, the cost and trouble involved in switching banks weakens the competitive effect of price differences, as a result, costumers choose to remain with the same bank even when another bank is providing better value (Greenberg & Simbanegavi 2009).

The Commission wants regulation to be introduced (within 5 years from 2008), that will force banks to have greater transparency and disclosure on product and pricing information; reduce search costs and improve comparability between products; and reduce the actual cost of switching and assist

consumers in doing so. (Jali et al 2008). These measures would result in greater ease for customers to switch between banks and prevent them from being locked in once they have joined a bank. This is expected to increase the level of competition and force banks to offer products and services that deliver real value to customers. Hawkins and Bertoldi (2006) are of the opinion that the four banks operating as an oligopoly and regulatory measures are necessary to increase competition. Greenberg and Simbanegavi (2009), however, believe that there is no guarantee that the increased fees and product transparency will lead to increased competition. On the contrary, it might actually facilitate collusion and the customer will be disadvantaged even more.

The Reserve Bank maintains that the South African Banking industry is highly competitive and that there is still room for players who deliver real value to customers (Mboweni 2004). This is evident in the emergence of Capitec Bank, which has taken advantage of this competitive environment to make a serious challenge to the dominance of the big four banks. Capitec entered the market as a niche bank offering accessible lending. Once it was established in the lending market, Capitec positioned itself as a transactional bank of choice for customers seeking simple and affordable transactional banking solutions. Now Capitec is competing with the big four in providing the mainstream retail banking solutions and is currently the fastest growing retail bank is South Africa (Mittner 2011). Hence, the only way for the four large banks can to win back the market share they lost to Capitec is by putting put more focus on meeting customer needs and expectations (Chigamba & Fatoki 2011).

The South African Banks have each tried to position themselves as a providing a unique offering that appeals to the South African banking population. Standard Bank has emphasised its high levels of service as evidenced the Ask Africa Awards it won for three years in a row. Standard Bank has also emphasised the strength and integrity of its brand and has been nominated as the most trusted company in South Africa. FNB has emphasised its innovation

and completeness on banking services that it offers. The bank seeks to provide real value for money and offers unique solutions to the South African banking population. ABSA is well-known for sponsoring the two most supported sporting codes. It supports the SA Rugby team and the Currie Cup Competition as well as the SA Soccer team and the Premier Soccer League. This sponsorship has improved ABSA's visibility to the banking population as the bank that supports South Africa. Nedbank, the green bank offering the green solutions, is battling to shake off its past image as the bank of the affluent. The bank has products that are meant to attract both the low income and the previously unbanked, but, its adverting still places it as the bank targeting the affluent. Capitec, 'the new kid on the block', has positioned itself as a 'no-frills' bank offering simple, easy to understand banking to everyone (Fin24 2010)

2.3 Customer Equity

2.3.1 Introduction

The total revenue that a sustainable firm generates from customers should exceed the cost of acquiring and servicing them by an acceptable margin over the lifetime of the relationship (Kotler, & Keller 2009). The primary objective of the firm's marketing efforts is to create an offering that customers are prepared to pay for at a price higher than the cost of providing the service. This difference in cost and price is Customer Equity for the firm. Customers on the other hand derive value from paying a cost that is less than the perceived benefit. The total cost of ownership includes both the monetary costs and all the sacrifices involved in going through the purchase experience. Additional sacrifices that customers consider include search costs, psychic costs, the perceived risk of making the purchase in the first place and any additional costs needed to continue enjoying the service, maintain the relationship or terminating the service (Buttle 2009).

Both the firm and the customer consider Customer Equity based on the lifetime of their relationship. The fluctuations in the value of Customer Equity are not as important as the total value received over the lifetime of the relationship. For the firm this leads to the concept of Customer Lifetime Value. This concept allowed the firm to understand why they usually need to meet high costs of acquiring customers who are initially unprofitable but have become profitable over time (Kotler, & Keller 2009).

2.3.2 Customer Lifetime Value

Kotler and Keller (2009: 173) define Customer Lifetime Value as:

> "... the net present value of the stream of future profits expected over the customer's lifetime of purchases."

Customer Lifetime Value allows the firm to view a customer as a lifetime of income streams and not just a set of independent transactions (Berger & Nasr 1998). The profits are a function of acquisition, retention and expansion revenue projections less the associated cost (Gupta, Lehman & Stuart 2004). A customer's lifetime value is: the expected cash flows less the costs of acquiring, retaining and serving that customer are discounted using the appropriate discount rate based on the cost of capital and the associated risk attitudes (Kotler, & Keller 2009).

Gupta, et al (2006) uses the following equation to model customer lifetime value:

$$CLV_i = \sum_{t=1}^{n} \left(\frac{(\mathrm{PP}_{it} - \mathrm{C}_{it})\, \mathrm{pb}_{it}}{(1+\mathrm{r})^t} \right) - AC$$

CLV_i = the lifetime value of customer i,

PP_{it} = purchase price paid by customer at time t,

C_{it} = direct cost of servicing and retaining the customer at time t,

AC = Acquisition costs,

pb_{it} = probability of the customer repeat buying at time t,

i = the customer index,

n = is the forecast horizon,

t = time index, and

r = the acceptable discount rate.

Firms maximise profits over the lifetime of the customer and not just from the profit from a particular transaction. The sum of all individual Customer Lifetime Values of the firm's current and future customers makes up the firm's Customer Equity (Bick 2009). Customers are the primary source of revenue and the current and future revenue are expressed as Customer Equity.

Blattberg and Deighton (1996) proposed that the marketing spend aimed at creating Customer Equity should be capitalised as an investment since Customer Equity expresses the value that the firm will derive from current and future customers. However, the absence of a financial measure of Customer Lifetime Value and Customer Equity made it difficult for marketing managers to justify this spend as an investment. The emergence of models of Customer Equity have provided the missing link needed for firms to quantify the return on marketing investment and provide the guidance required to optimise this investment (see Blattberg & Deighton 1996, Rust, et al., 2004; Gupta & Lehmann, 2003, 2005). The Customer Equity models have now provided a customer-centric measure of the firm's value.

2.3.3 Customer Equity models

Blattberg and Deighton (1996) came up with one of the first Customer Equity model which aims to optimise marketing spend on acquisition and retention in order to maximise Customer Equity. The model uses current spend on acquisition and retention, current success rates on acquisition and retention as well as current acquisition and retention ceilings to optimise the acquisition and retention levels.

Blattberg, Getz and Thomas (2001) refined the Blattberg and Deighton (1996) model to include add-on selling equity to acquisition and retention equity. The model analyses three equities (acquisition, retention and add-on selling) in terms of buying rates, selling margin and marketing expenditures. Customer Equity can be increased by increasing the buying rates and/or selling margins for any or all of the three sales (acquisition sales, retention sales and add-on sales) (Blattberg et al 2001).

The firm optimises Customer Equity by finding the optimal allocation of resources across acquisition, retention and add-on selling. It should be noted, however, that allocating marketing spend accurately across acquisition, retention and add-on selling components remains a challenge (Bick 2009). This challenge is mitigated by the fact that it is best to optimise marketing spend collectively than individually between these three components (Thomas, Reinartz & Kumar 2004).

The models by Blattberg and Deighton (1996), and Blattberg et al., (2001) are internally focussed which means that these rely on the internal data for estimating future purchasing patterns without taking into account the demand-side effects of demand on purchasing decisions (Bick 2009). Rust, Zeithaml, and Lemon (2000) introduced a ‘driver model’ which uses demand-side information to predict future purchasing decisions. The main assumption of this model is that customers are influenced in making purchasing decisions to the

extent that their key value drivers are satisfied. External information gathered through field research is used to determine the drivers of Customer Equity and their relative importance. Earlier, Zeithaml (1988) had identified the key value drivers as: price; quality; perceptions and value for money. Rust et al., (2000) refined these drivers and classified them into: Value Equity, Brand Equity and Retention Equity. These are covered in more detail in section 2.3.4.

Rust, Zeithaml and Lemon (2004) refined the Rust et al., (2000) model to add other important determinants of Customer Equity. These include the future purchasing amounts, the frequency of future purchases and the split of future purchase amount across different providers. The field surveys will yield a high range of drivers of customer value, but the model is optimised by taking into account only the drivers that explains the significant variation in customer value. Drivers that have an insignificant effect were either left out outright or are grouped with other drivers into one significant grouped variable. The significant drivers which explain the largest variation in customer value are modelled using the Principal Components Regression. This resulted in a better refection of Customer Equity than the one calculated using Rust et al (2000).

The refined model by Rust et al., (2004) improves the level of customer-centricity of the original model by including the analysis of the relative importance and sensitivity of each of the driver from the customer's point. The main challenge remains that customers are assumed to have a good recollection of their past spending and a fairly accurate view of their future spending probabilities across different service providers. Brand switching metrics are used to model customer retention, defection, and possible return (Rust, et al., 2004).

The complexity of the statistical modelling for the Rust et al (2004) model limited its relevance for practical use by many organisations. To mitigate this complexity, Gupta and Lehman (2005) came up with a more simplified model for estimating Customer Equity. Their model uses the average margin per

customer, the average customer retention rate and the discount rate as the main inputs to the calculation of Customer Equity. The calculated Customer Equity is used as the yardstick to access marketing strategy development, marketing planning and firm valuation. Therefore, the Gupta and Lehman (2005) model provides the firm's management with practical guidelines towards better customer management and strategic management.

Gupta and Lehman (2005) use internal metrics to model the drivers of Customer Equity which ensures that most of the information required for calculating Customer Equity is available in the organisation or can be easily assembled. This simplification however comes at the expense of being too internally focused. The simplified model does not take into consideration customer inputs and sensitivities on drivers. Sensitivity measures the level of change in customer activity that is depended on changes in a driver. The simplified model is therefore not as customer-centric as other demand-focused models (Bick 2009). Hence, firms need to understand the demand side drivers of Customer Equity in order to make truly customer centric marketing investment decisions.

The firm that understands the drivers that customers consider to be the important source of value can concentrate marketing efforts in addressing the issues that create value to customers (Rust et al 2000). The value delivery chain needs to be managed in such a way that there is no service gap between expected service and perceived service. This service gap is only acceptable to the extent that perceived service exceed expected services (Buttle 2009). Once value can be demonstrated to customers, a value premium can be charged. This allows the firm to increase margin and therefore its Customer Equity; the higher the premium that customers are prepared to pay, the higher the Customer Equity (Buttle 2009).

2.3.4 Drivers of Customer Equity

The key demand side drivers of Customer Value as identified by Rust et al., (2000) are Value Equity, Brand Equity and Retention Equity. Value Equity is the customer's objective assessment of utility based on the customer's perceptions of quality, price competitiveness and convenience. Retention or Relationship Equity is the customer's tendency to stay with the brand. The key driver to this equity is membership to loyalty programs that give additional value or additional satisfaction as well as recognition and special treatment (Kumar & George 2007).

2.3.4.1 Brand Equity

Brand Equity is defined as the customer's subjective and intangible assessment of the brand, above and beyond its objectively-perceived value. Brand awareness, the customer's attitudes toward the brand and corporate ethics are the main drivers of Brand Equity (Rust, Lemon and Zeithaml, 2001a:8). A good brand is an asset and adds to the value provided by the product or service. On the other hand, a bad brand (or a brand with a negative equity) is a liability that will subtract from the value provided by the product or service (Aaker, 1996)

Brand Equity provides value to the customer by enhancing the customer's processing of purchase information and increasing the confidence in purchase and the satisfaction in use. For the firm, a Brand Equity enhances the efficiency of marketing programmes, brand loyalty, margins, brand extensions and trade leverage (Bick, 2009).

Brand Equity is made up of the following four major asset categories:

- **Brand name awareness**, which is the strength of the brand presence in the customer's mind. This measured by the customer's recognition and recall of the brand;

- **Brand loyalty**. This is the willingness of the customer to repurchase the same brand;
- **Perceived quality**. This reflects the reason why many customers are prepared to pay a price premium for a particular brand; and
- **Brand associations**, which is the attributes that customers associate with a brand. (Aaker, 1996)

2.3.4.2 Value Equity

Value Equity is the customer's objective assessment of the utility of the brand, based on the perceived benefits versus what is sacrificed to enjoy these benefits (Aaker, 1996). The sub-drivers of Value Equity are quality, convenience and price. Customers usually take into account both monetary and non-monetary sacrifices when assessing whether the quality and convenience benefits of a good or services is worth the cost (Aaker, 1996).

Product or service quality is conformance to specification and promise, and displays fitness of purpose. In the banking industry, fitness of purpose includes helping customers to select the best financial products for their financial circumstance or allowing customers to select the best delivery channel for a particular transaction. Parasuraman, Zeithaml, and Berry (2000) developed a SERVQUAL model that identifies five core components of service quality as: reliability, assurance, tangibles, empathy, and responsiveness.

Reliability is the ability to perform the promised service dependably and accurately. The core service and the service quality must, as a minimum, address the customer's need. Assurance is delivered through knowledge and courtesy of the employees and their ability to convey trust and confidence; the people delivering the service cannot be separated from the service (Parasuraman et al 2000).

In the consumption of services where the core product is intangible, customers derive more satisfaction when the tangibility gap is bridged and there is some physical evidence of service. This physical evidence may include the appearance of the physical facility and the entire customer facing equipment. This is normally the first impression of the tangibles that the customer gets. Effort must be made to ensure that these give a true image of the service quality that is delivered. Overall all the customer touch points must exhibit an inviting environment that makes customers want to do business with the firm. A bank for example, must ensure that the appearance of its branches, ATMs and even the website gives an image that is in line with the service quality it delivers; they should always be clean and in good state of repair (Parasuraman et al 2000).

Empathy is about the process as much as it is about the people delivering the service. Service recipients want to receive both caring and individualised attention from staff. This shows a willingness to help customers and provide prompt service (Parasuraman et al 2000).

At an operational level, firms create value for customers by focusing of the following three broad value delivery strategies; operational excellence, product leadership and customer intimacy. Together, these three value strategies should deliver value that the customer perceives to be higher than the costs they are making (Buttle 2009). Operational excellence ensures that the process of service delivery is efficient allowing the firm to pass on savings to the customers or to enjoy higher margins or both. Product leadership focuses on delivering the best services and solutions to customers, relative to competing products and service. The customer enjoys a higher perceived benefit while the firm can charge a premium for the superior quality at increased margins (Cheng 2008).

2.3.4.2 Retention Equity

Relationship Equity is the incremental inclination of the customer to remain loyal to the brand, which is beyond the customer's objective (Value) and subjective (Brand) perception of the brand and is directly attributed to the firm's relationship management. The drivers of Relationship Equity include: loyalty programmes, special recognition and treatment, affinity, community building, and knowledge building (Rust, et al., 2001).

The level of loyalty is characteristically driven by the customer's perception of their relationship with the firm. This relationship includes the customer's overall product satisfaction, trust between themselves and the firm, the quality of the relationship and their overall satisfaction with the relationship. Overall customer satisfaction is proven to have links to customer-employee closeness, thus the social side of the business exchange can affect customer satisfaction (Guenzi & Pelloni, 2004).

The main elements of Relationship (Retention) Equity are:

- Core service performances,
- Recognition for contributions,
- Dissemination of organisation knowledge, and
- Member interdependence enhancement (Chang & Tseng, 2005).

The business model of retail banking makes Relational Equity particularly important for the banks because much of the cost the banks meet in servicing the customer can only be recovered later in the relationship. For example, the account opening and setup costs for each customer are high, but the bank cannot charge the customer directly for these services. The bank will recover these costs during the course of the relationship from other billable activities. However, if the banking relationship is short, the revenue streams might not be enough to cover the initial set up costs. Banks cannot afford to have short-term

relationships based on a series of short term discrete transactions (Heinlein, Kaplanb & Anemone 2007).

Long term relationships have other benefits in addition to the continued revenue streams. Customers who feel that they have a satisfactory long term relationship are the least price sensitive compared to all other customers. Loyal customers have lower marketing requirements and are generally more profitable than newer customers (Reichheld & Sasser, 1990). These customers actual enhances the bank's marketing efforts because they recommend the bank to friends and colleagues. Therefore, banks should strive to develop long-term relationships with existing clients in order to maximise their Relationship Equity (Abratt & Russell 1999).

Resource investment in retail banking is still strongly biased toward support activities rather that relationship marketing activities. Banks do not invest much in building strong relationships with retail customers. However, business banking and other high net worth customers are treated differently. These customers derive more value from personal relationships and from personalised products and services. Banks are prepared to make the investment in relationship marketing for these customers since they receive a good return for it (Carson, Gilmore & Walsh 2004). Rust et al. (2000) maintains that marketing effort in the service environment focus more building long term profitable customer relationships irrespective of the value of Relationship Equity per customer. Thus, the marketing investment focus should shift from transactions to building relationships with customers.

2.4 Customer Equity Aggregation

Kumar and George (2007) summarised the Customer Equity models in terms of how the Customer Equity is aggregated and maximised. They explained that the various approaches to Customer Equity differ from each other in a number

of ways so there is need for comparison and aggregation of the models in order to maximise customer equity depending on the circumstances.

The various approaches differ from one another in a number of aspects. Figure 1 below shows the comparison of the comparison of aggregate and disaggregate approaches on six criteria. A firm that has good quality wallet size information for prospects can use the existing customer information as the primary source of data. The profile information obtained from analysing this information is used to acquire the right the prospects and then improve the drivers of Customer Lifetime Value (CLV) to maximize CLV from potential customers. The VK approach (Venkatesan & Kumar 2004), suggests that customer-level strategies to improve Customer Lifetime Value need to be implemented in a small group of customers to see the impact before it can be extended to all customers. The main limitation of this approach is the large number of variables and iterations required in computing CLV at customer level and aggregating Customer Equity at firm level.

Figure 1: Comparison of Customer Equity Approaches

Criteria	VK approach	BGT approach	RLZ approach	BN approach	GL approach
Expected benefit	▪ Measurement of CLV and CE – Customer level strategies to improve CE,	▪ Measurement of CE – segment level strategies to improve CE	▪ Measurement of CE – firm level strategies to improve CE.	▪ Measurement of CE – Customer level individual purchase	▪ Measurement of CE – comparison of firms
Data requirements	▪ Customer-level data from firm's internal records	▪ Segment-level data from firm's internal records	▪ External survey data from a customer sample	▪ Data from firm's internal records	▪ Publicly available firm-level data
Cost involved	▪ Moderate to high, ▪ Model estimation cost	▪ Moderate to high, ▪ Model estimation cost	▪ Moderate to high ▪ Cost of survey. Model estimation cost	▪ Moderate ▪ Model estimation costs	▪ Low to moderate ▪ Model estimation costs (simplest of all the models)
Ease of implementing the strategy	▪ Can be implemented in a small group of customers to see the impact	▪ Changes required at firm level. Hence implementation is difficult	▪ Changes required at firm level. Hence implementation is difficult	▪ No specific strategy mentioned	▪ No specific strategy mentioned
Time to implement	▪ Short (small group of customers can be used for implementation	▪ Long (measurement of firm-level changes in CE takes long)	▪ Long ▪ Measurement of changes in brand switching probability takes long	▪ N/A ▪ No specific strategy mentioned	▪ N/A ▪ No specific strategy mentioned
Metrics to track	▪ Contribution margin ▪ Predicted inter-purchase time ▪ Firm's marketing effort ▪ Individual CLVs	▪ Return on acquisition ▪ Return on retention ▪ Return on add-on-selling	▪ Contribution per customer ▪ Probability of purchase ▪ Marketing costs	▪ Retention rate ▪ Contribution per purchase	▪ Retention rate ▪ Average contribution

Source: Kumar and George (2007)

Key:

VK : Venkatesan and Kumar (2004),

BGT : Blattberg, Getz and Thomas (2001),

RLZ : Rust, Lemon, and Zeithaml, (2004),

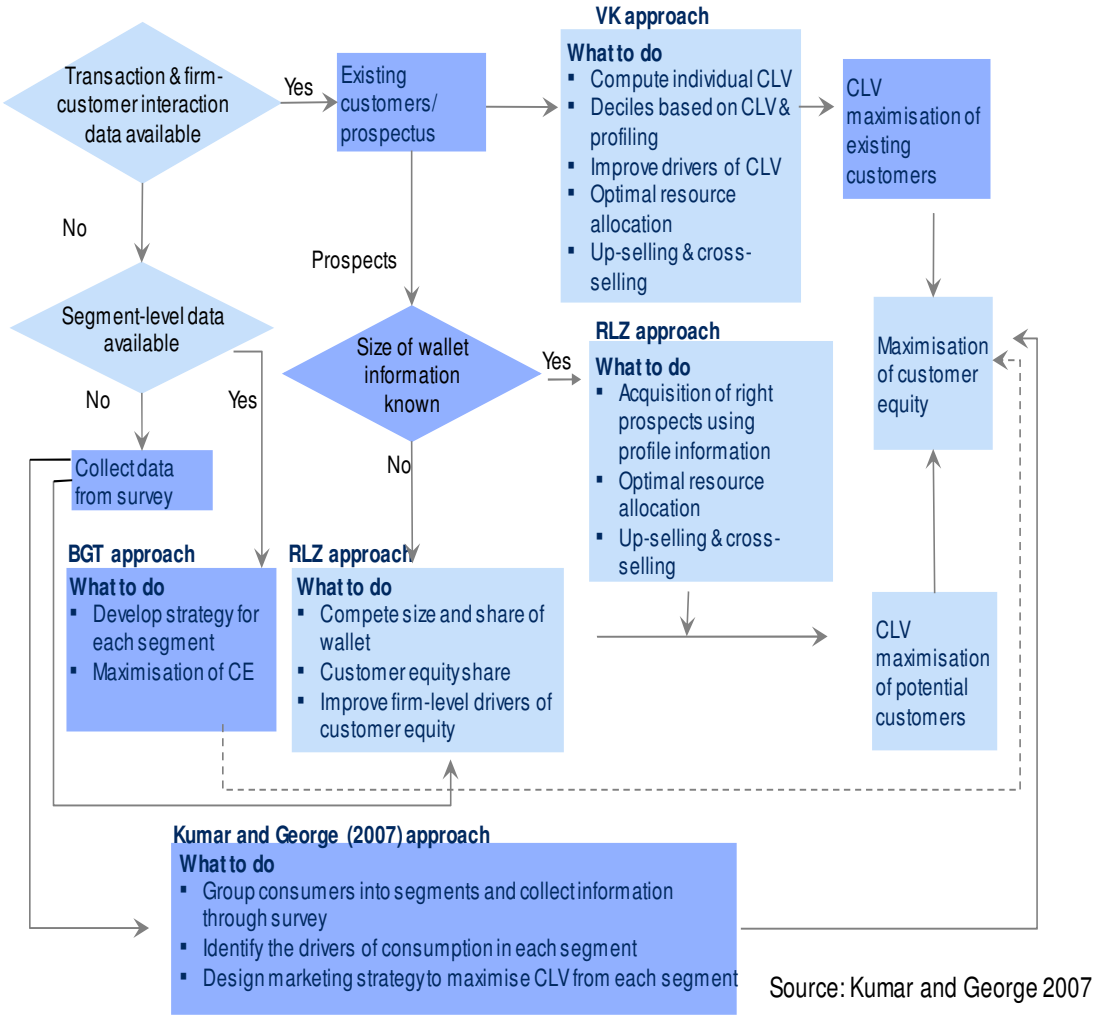
BN : Berger and Nasr (1998),

GL : Gupta and Lehman (2003)

Firms face different scenarios such as the B-to-B/B-to-C, the granularity of wallet size information and the reasons for measuring Customer Equity; each

single approach is therefore inadequate for the various scenarios, so Kumar and George (2007) came up with a framework (Figure 1) to select the best approach or combination of approaches depending on the firm's condition and environment. This framework allows firms to go through an iterative process of aggregation and elimination as they use the different models in calculating Customer Equity.

Figure 2: Selecting the Customer Equity Modelling Approach



Source: Kumar and George 2007

In the B-to-B setting where the contribution per customer or even per purchase is available, the BN approach (Berger & Nasr 1998) is normally applied.

However, there are cases where the firm's information about end customers is very limited. For example in the FMCG market, sales usually occur through an intermediary and the numbers of these customers are unmanageably large. As a result, managing business at an individual customer level may not be the right strategy. The contribution per customer is very low in relation to the cost of managing customers at individual level.

BGT approach (Blattberg, Getz & Thomas 2001) can be used if the firm already has segment level information acquisition rates, contribution margin, and marketing costs for acquisition, retention and add-on selling. However, when using this approach, the individual components of customer equity cannot be segregated completely because modelling is done at segment level and the information used is aggregate information.

In cases where the wallet size information for prospects is not available internally, the firm can collect survey data from a representative sample of customers. The RLZ approach (Rust, Lemon, & Zeithaml, 2000) is then used to measure Customers Equity at firm level. The main limitation is that the quality of sampling selection and subjectivity of customer rating affects the accuracy of the metrics being measured. If the firm wants to achieve higher accuracy, sampling costs tend to be high. Kumar and George (2007) emphasises that the survey results should allow the firm to calculate Customer Lifetime Value per segment and understand the drivers of consumption for each segment. High variation in consumption can exist within an age group or an income segment, and the firm need to identify other demographic variables that explain the variation in consumption patterns within a segment. These can include gender, occupation and ethnicity, among other things. Understanding this variability allows the firm to formulate optimal marketing strategies that will maximise Customer Lifetime Value for each segment (Kumar & George 2007).

If the objective of calculating Customer Equity is comparing different firms, then the GL approach (Gupta & Lehmann 2003) is used. This approach uses publicly

available firm-level data to compute individual firms' Customer Equity. This, however, oversimplifies the calculation of Customer Lifetime Value over an infinite period. Also, the use of constant average margins and retention rates which may not reflect real life situations.

2.5. Drivers of Customer Equity in the Banking Industry

There are a number of studies on the factors that customers consider to be important in choosing or staying with a bank (Midgley, Dowling & Morrison 1989, Manrai & Manrai 2007, Ardic & Yuzereroglu 2009, Narteh & Owusu-Frimpong 2011, and Chigamba & Fatoki 2011). These studies focused mainly on understanding the factors that drive acquisition and retention for retail banking customers.

Most of the studies that contributed significantly to the literature on drivers of Customer Equity in retail banking, as cited above, were done in countries other than South Africa. The drivers of Customer Equity are generally the same across different countries; however differences in needs and preferences will exist based on differences in cultural, economic and legal environments, among other things (Almossawi 2001). Therefore, these drivers need to be validated before being applied to the South African Banking industry or any other environment.

In an SA study by Chigamba and Fatoki (2011) using only university students as respondents, the researchers emphasised the existence of drivers that are very important to university students but might not be as important to other customer. For example, most students would bank with the same bank used by their parents because this makes it easy for the parents to transfer money to them. In addition, students know from their parents' experience with the bank whether to bank with them or not. This is not applicable to customers who are

not reliant on parents and guardians for financial support. The same students did not consider bank charges and interest rates to be a critical factor. This is because generally, students use their account to receive money and keep the minimum balances, so there is little money on which to earn interest. Also, all the four major banks offer student accounts with little or no transactions fees. The main reason is to get them now with good service, and they will stay when they are high earning professionals that are profitable to the bank.

Contrary to students, other customers who pay for all their banking service and also use banking accounts for savings consider bank charges and interest to be a critical factor when selecting a bank (Ibrahim, Joseph & Ibeh (2006).

2.5.1 Value Equity in retail banking

The speed of service delivery and the distribution of the branch network are the main drivers of value in Ghana (Narteh & Owusu-Frimpong 2011). This finding was in line with Anderson, Cox and Fulcher (1976), who concluded that convenience and the size of the branch network are among the most important factors that retail banking customers consider. However, Devlin and Gerrard (2004) are of the opinion that this is no longer a key factor for developed banking markets due to the increasing use of electronic banking platforms. Electronic banking alternatives has significantly reduced customers' reliance on the branches while at the same time providing customers with more convenience, lower costs and higher satisfaction (Ibrahim, Joseph & Ibeh, 2006).

The studies based on student showed that interest paid on deposits was not considered an important determinant of bank selection. This might be mainly because the student population generally keep low balances where interest earnings are insignificant irrespective of the interest rate (Narteh & Owusu-Frimpong, 2011;, Chigamba & Fatoki, 2011).

Anderson et al. (1976) found that some customers are attracted by the availability of credit, irrespective of the cost of the credit (Anderson et al 1976). In South Africa, Capitec Bank has used access to credit as the platform to build a customer base before introducing traditional transactional accounts to its customers.

2.5.2 Retention Equity in retail banking

Customers who derive satisfaction from the service quality are more likely to remain loyal to their retail bank than any other customer (Armstrong & Seng 2000). Service quality can be classified into four dimensions; staff, atmosphere, financial considerations and convenience (Manrai & Manrai 2007). Customers consider these factors together in rating the service quality of the bank and they expect the bank to perform above a certain level on all these dimensions. Service quality is also driven by attitude, courtesy, empathy and behaviour of staff as well as the knowledge and skill of the frontline staff, as measures of service quality (Narteh & Owusu-Frimpong 2011).

Even though service quality is a definite driver of acquisition, poor service does not necessarily result in defection to another bank. The correlation between dissatisfaction and defection is not always strong (Baumann, Elliot and Harmin 2010). Ironically, while there is a fair amount of inertia with many dissatisfied customers, there are also satisfied customers who might switch banks abruptly when their personal circumstances change or when they perceive that another bank can provide higher value, therefore banks always need to keep abreast of current customer needs in order to drive acquisition and retention. (Baumann, Elliot & Harmin 2010).

Customers generally consider personal relationships and service as key to service quality. Customers who feel that they have a satisfactory long term relationship are the least price sensitive compared to all other customers. Banks should therefore strive to develop long-term relationships with existing

clients (Abratt & Russell 1999). This is because loyal customers have lower marketing requirements and are generally more profitable than newer customers (Reichheld & Sasser, 1990). Long term customers actual enhances the bank's marketing efforts because they recommend the bank to friends and colleagues.

2.5.3 Brand Equity in Retail Banking

Brand reputation, trust and heritage are among the primary considerations when selecting a bank amongst individuals in the United States (Anderson et al 1976). This trust comes primarily from family and friends referrals, the perceived structural image of the bank and even through the patronage of parents (Blankson, Omar & Cheng 2009 and Ardic & Yuzereroglu 2009). Small private and niche banks often attract individuals on by offering high interest rates and low fees, however, a lot of customers tend to avoid them due to a perceived lack of trust and the untested brand image (Ardic & Yuzereroglu 2009). Capitec Bank has used this approach to attract customers, however, its success in attracting the middle class and above is limited because these customers view Capitec as the bank of the poor or the unsophisticated.

2.6 Conclusion of Literature Review

The literature has demonstrated the value of focusing on Customers Equity as a way of building firm value and shareholder value (Bick 2009). With the advances in models of Customer Lifetime Value, firms can now estimate the value of their Customer Equity with reasonable accuracy and this can be used to evaluate the impact of marketing programmes (Rust et al 2004).

Customer Equity models can be classified into demand side and supply side models. Supply-side models focus on internal data to infer the future purchase behaviour of customers (Bick 2009). Demand-side models uses customer input

to estimate the expected future purchase behaviour. This input is gathered through field surveys. Customer requirements determine the drivers of customer lifetime value. Customers remain loyal to the firm to the extent that the drivers of their lifetime value are satisfied (Rust et al 2004).

Field surveys normally yield a number of different drivers of lifetime value. These drivers have different levels of significance in their effect on Customer Lifetime Value. The Principal Components Regression as used by Rust el at (2000), is used determine the relative importance of each driver on Customer Lifetime Value.

A number of studies have gone on to identify sub-drivers for various industries; the airline industry in South Africa (Daines, 2007), the commercial vehicle market in South Africa (Savage, 2007), the FMCG industry in South Africa (Khatri, 2010) and the consulting industry in South Africa (Simon 2010). Value Equity was found to be the critical driver in the FMCG market with Brand and Relationship Equity ranking very low. However, Relationship is the consulting industry and brand equity is important in the automotive industry.

A number of studies have focused on the driver of Customer Equity in the retail banking industry (Midgley, Dowling & Morrison 1989; Manrai & Manrai 2007; Ardic & Yuzereroglu 2009; Narteh & Owusu-Frimpong 2011; and Chigamba & Fatoki 2011). These studies were however based on other countries not on South Africa. Studies on sub-drivers of Customer Equity in the retail banking industry in South Africa were segment specific. Bick (2007) focused on the SME customers while Chigamba and Fatoki (2011) limited their study to university students to the exclusion of other customers. Consequently, this study fills the gap that exists in retail banking Customer Equity literature by addressing the following questions.

2.6.1 Research question 1:

What are the drivers and sub-drivers of Customer Equity in the retail banking industry in South Africa?

Customer Equity is maximised by improving the drivers of Customer Lifetime Value at the aggregate level. The main drivers of Customer Equity as identified by Rust et al (2000) are Brand Equity, Value Equity and Retention Equity. This study identifies the sub-drivers of each of these main drivers. The South African retail banking industry needs to understand the drivers of Customer Lifetime Value so that they can allocate marketing resources optimally and maximise Customer Equity for their current and future customer base.

2.6.2 Research question 2:

What is the relative importance of each of the drivers of Customer Equity?

The ranking of the drivers will help banks in prioritising their Customer Equity investment and focus according to customers' preferences. Return on marketing investment is maximised by focusing on the drivers that are important from the customers' point of view. The importance of the drivers in line with the customer needs and preferences at each stage of the relationship, and the firm need to adopt its focus to the changing preferences (Kumar & George, 2007).

The drivers that customers consider important are normally dependent on the industry or the nature of the relationship. Relationship Equity is important in B2B purchases where the purchase decision is normally complex and involves a large investment at a time. The purchase decision is therefore dependent on the relationship and support that the customer receives in making the purchase decision and during all the after sales processes. Value Equity is the main driver for FMCG purchases where each individual purchase is small. Customers consider the value received in relation to the specific purchase in comparison to

the cost. Brand Equity is important where customers want assurance of service quality for example in banking. Customers want the assurance that their funds are secure that they will have access as and when required (Rust, et al. 2000).

2.6.3 Research Question 3:

What is the performance of each of the major banks (Standard Bank, ABSA, FNB and Nedbank) against the drivers and relative each other?

In a competitive environment, it is not enough to perform well without benchmarking one's performance to competitors. For a firm to be successful in a competitive business environment, it must choose a strategy as a differentiator and strive to do as well as everyone else on all the other strategies. This requires that the firm knows the performances of its competitors as well as how customers rank it against its competitors (Johnson & Scholes 2002).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This study uses the mixed methods approach to answer the three research questions. The first objective is to identify the sub- drivers of Customer Equity specific to the retail banking. This is done through the qualitative approach of focus groups. The second objective is to rank the relative importance of each of the sub-drivers. This is done through Principal component analysis. Lastly, the performance of each of the major banks on each of the drivers is assessed relative to customer expectations and relative to other retail banks. The third research question is also addressed using qualitative analysis of responses from a questionnaire based survey.

3.2 Qualitative research

3.2.1 Research methodology/paradigm

This study begins by identifying the drivers of Customer Equity in the South African retail banking industry. Most of the studies that contributed significantly to the literature on drivers of Customer Equity in the retail banking, as cited in the literature review above, were done in countries other than South Africa. The main drivers of Customer Equity are generally the same across different countries, however there are differences between countries when it comes to the sub-drivers and preferences. These differences are based on differences in cultural, economic and legal environments, among other things (Almossawi 2001). Therefore the drivers cited in the literature review need to be validated before being applied to the South African Banking environment or any other environment. Focus groups a sample South African retail banking customers to

be used to identify sub-drivers that are important to the South African retail banking customer.

Qualitative research is used for the first part of the research. Qualitative research seeks to explain rather than measure; it draws depth and learns how and why people behave rather than drawing breath and focus on what people do (Ambert, Adler & Detzner, 1995). Focus groups are the main research tool used to identify the drivers and sub-drivers of Customer Equity as well as link them to the driver identified in literature. The focus is more on explaining what determines customers' perception of the main drivers identified in literature, namely: Value Equity, Brand Equity and Relationship Equity (Rust et al 2000).

3.2.2 Population

The research population comprises of all South Africa adults who have banking accounts with a South African retail bank. It is estimated that 77% of the South African population over the age of 16 is financially included (i.e. using some financial product or service from either the formal or informal sectors), with 68% being formally served and 9% being informally served Finscope (2010). The population for this research is limited to customers who use formal banking services. The population excludes private banking customers have complex and varied banking needs and inclusive banking customers who only require basic entry level banking services. These two groups will be outliers if they were to be included in this study.

3.2.3 Sample size and Sampling Methods

A sample is expected to give information about a population; therefore it is critical to identify and choose the population carefully. The sample used for this research is representative of the research population. Three convenience samples, as summarised in Table 1, are used to conduct focus groups in order

to identify the sub-drivers of customer value for the South African retail banking industry. The customers are sampled according to the three main segments as classified by the South African retail banking industry. The three segments are: the entry level segment (the low income), the middle market, and the prestige segment (Standard Bank, 2010). The entry level segment is usually divided into two groups; the younger population (18 to 35 years) with a higher potential of major changes on income and banking profile in the near future, and the older population whose income has stabilised and are likely to remain in the same segment in the medium to long-term. The customers are divided into the three segments so that customers with similar profiles are comfortable in the same focus group. Convenience samples are used here because, at the exploratory phase the study, the ideas and insights generated are more important at this stage than scientific objectivity (Kumar, Aaker, & Day 2006).

Table 1: Profile of focus group respondents

Description of respondent	Number to be sampled in one focus group
Entry level (low income)	8
Middle Market	8
High Income Customers	6

At the time this research was initiated, the researcher was an employee of Standard Bank. This made it easier to get Standard Bank customer details that it was to get details of other bank's customers. Since it is easier to get the details of Standard Bank Customers, the sample is split 50% Standard Bank customers and the other 50% is spread across the FNB, ABSA, and Nedbank. These four banks are chosen because they are the main providers of retail banking services is South Africa. Other banks like Investec, PostBank, and African bank, just to name a few, were excluded because they are minor

players and niche banks. They target a section of the population whose requirements are particular and unique.

3.2.4 Data collection

For a focus group interview session to be effective the researcher conducting the focus group must; stay objective, create rapport with respondents, create an environment where respondents feel comfortable to share more in-depth comments, get the respondents' objective opinion without leading them, allow all respondents to give their input and keep to the topic. If these are not observed, focus groups run the risk of being long sessions where a few respondents hog the limelight or run the show while giving irrelevant input (Henderson 2002). Overall, the researcher has to be seen as the newest friend to the respondents, not an authority figure or someone wildly different to them (Henderson, 2002). These principles were observed during the focus groups.

Available literature was used to guide the focus group questions and ensure that the main questions are covered.

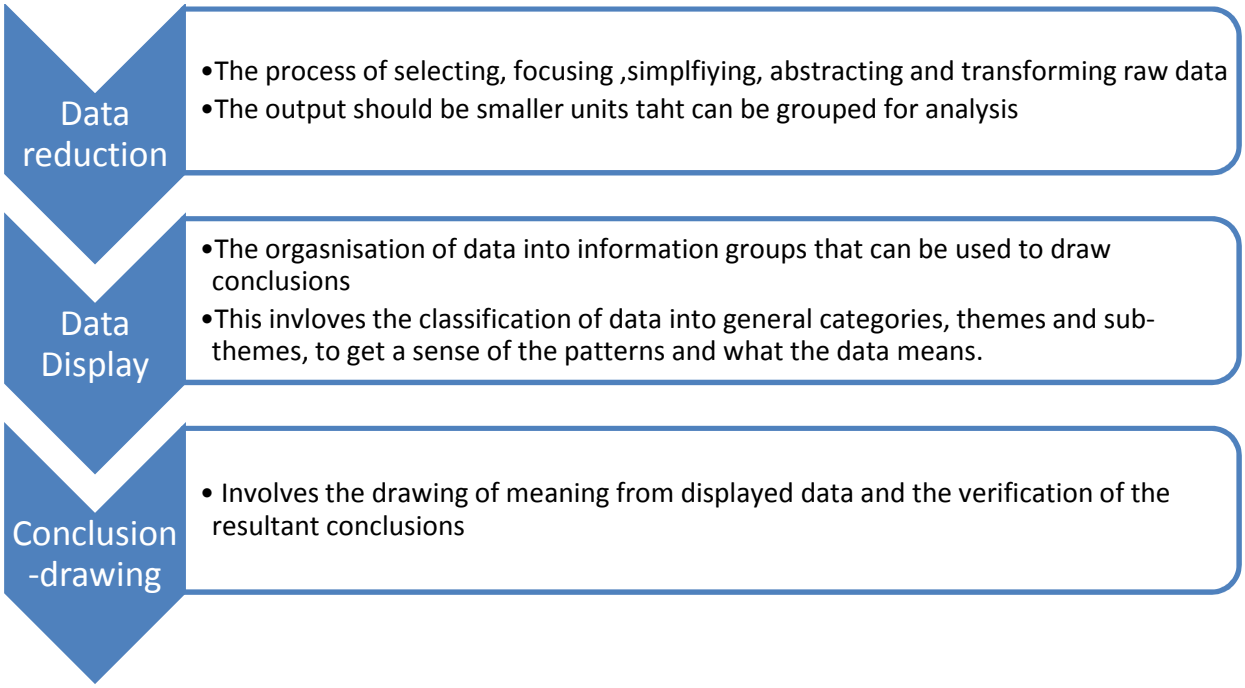
3.2.5 Data analysis and interpretation

All focus groups were conducted using the focus group guide in Appendix A. Respondents used the 'focus group answer sheet' in Appendix B to answer some of the questions as instructed. Gummesson (2003) advises that care must be taken to ensure that data interpretation was systematic, connected to theory, while being as transparent as possible. To ensure that all the focus group raw data is collected; there were audio recordings of all the focus group sessions. Also, each of the respondents was required complete the focus group answer sheet. The analysis of focus groups data was done in an objective, systematic and transparent manner. The Daines (2007) approach, as adopted from Miles

and Huberman (1984), is used to interpret the raw data collected from the focus groups.

Figure 3 below summarises the process followed in data analysis and interpretation.

Figure 3: Qualitative data analysis and interpretation



The responses were interpreted into the sub-drivers of Customer Equity, according Value Equity, Brand Equity and Retention Equity. Sub-drivers identified during the focus groups that seem to deviate from theory are probed further to ensure validity. The resultant sub-drivers were the primary input for the quantitative research questionnaire.

3.2.6 External validity

The sample is diversified across the different segments as serviced by the retail banks. The objective of this phase is to diversify the sample as much as possible so that the widest possible range of sub-drivers can be identified. Even though the sample is not big enough to be representative in a quantitative study, it is diverse enough to cover the different customers that the banks service. While this section of the study focuses on validity, the quantitative potion will focus on representation and ensure that the sample size is big enough.

3.2.7 Internal validity

Internal validity is the extent to which the design of a research study and the data yielded, allows the researcher to draw accurate conclusions about cause-and-effect and other relationships within the data (Leedy & Ormrod, 2005). The data from the various respondents is analysed to find the correlations and common themes between them, before a conclusion is drawn. The data was also moderated in line with current theory and literature.

3.2.8 Reliability

Reliability as defined by Murray (2006) as the extent to which the results are reproducible. To ensure reliability, all the focus groups were conducted at the same venue, by the same researcher at the same time of day. The researcher tried as much as is possible to create a similar environment for each of the sessions as well as ensure that all respondents were given a fair chance to respond.

3.3 Quantitative Study

3.3.1 Research paradigm

The quantitative section of the study was used to determine the significance of the drivers identified in the qualitative section above as well as rate the performance of each of the big four banks.

3.3.2 Population

Quantitative research involves the collection of primary data from large numbers of individuals, with the intention of projecting the results to a wider population. For the results to be applicable to the wider audience, the sample of individuals should be high enough and wide enough to represent the population (Martins, Loubser & van wyk 1999).

The research population comprises all South Africa adults who have banking accounts with a South African retail bank. The focus is on mainstream transactional banking customers, who keep and maintain a transactional banking relationship. This excludes Corporate and Investment banking, Small Business banking and Wealth management, which are normally run and managed by a separate division of the bank.

Private clients are normally managed by the private banking department of the retail bank, but they are also excluded from this study. The same applies to inclusive banking accounts normally used for basic savings or for receiving social grants.

3.3.3 Sampling methods

The random sample is selected from the database of Standard Bank and non-Standard Bank customers. This section will also have 50% standard Bank Customers and the other 50% spread across the customers of FNB, ABSA and Nedbank. Only the customers who have had contact with the bank in the last month were chosen. The contact could have been through the branch or any of the bank's banking channels (ATM, Call centre, Internet banking, Mobile Banking). This step ensures that customer perceptions are current and relevant. This step is designed to exclude dormant customers.

3.3.4 Data collection

The questionnaire was send to a targeted group of 192 respondents. The questionnaire asked respondents to rate the relative importance of each of the sub-driver on a 5 point Likert scale and then rate the performance of each of the banks that they had experience with on a ten point scale. First they would rate the bank’s performance on each of the sub-drivers; secondly they would give an overall rating of the bank’s performance across all the drivers.

The questionnaire was tested and validated on an initial sample of 10 respondents. This led to the rephrasing of some of the questions. Once the questionnaire was validated, it was send to the customers selected in 0 above. Customers were conducted by email and requested to access the questionnaire through a link attached to the email. These are customer who had consented to be contacted for the purposes of research and marketing by the bank and its partners. The questionnaire is as presented is Appendix C.

3.3.5 Data analysis and interpretation

The data was analysed according to Item Analysis and Principal Component Analysis (PCA) on the Number Cruncher Statistical Software (NCSS). Principal Component Analysis (PCA) was performed on the data from the questionnaires to identify the underlying constructs in the data and reduce the variables to a more manageable set (Aaker et al 2004). This was to validate the results of the focus group study. The results from these tests are however not be used to change results from the focus group but to further explain the drivers as discovered in the focus groups.

PCA is preferred over Factor Analysis which is normally used to identify the underlying constructs because PCA eliminates the problem of multicolinearity and does not take commonality of the variables into account. Multicollinerity is a phenomenon where two or more predictor variables in a multiple regression model are highly correlated; and communality is when the predictor variables are part of one common set (Aaker, et al 2004). PCA transforms a number of potentially correlated variables into a set of variables called principal components. In addition, PCA takes into account the variability of the all the variables, resulting in uncorrelated factors, which makes PCA the preferable method of analysis.

3.3.6 Limitations of the quantitative analysis

Factor analysis requires the number of respondents to be at least 4 to 5 times the number of statements being analysed. The quantitative analysis used 19 statements which mean at least 76 respondents were required. However, of 192 questionnaires sent out 85 responses received, but only 67 responses were complete and valid. This is at least 9 short of the statistically valid number of responses. Notwithstanding the fact that the results are not statistically generalisable, they are still a good indicator of the drivers of Customer equity as

well as the performance of the banks surveyed. There is an opportunity for further research using a higher number of responses.

The other limitation is that a disproportionately higher number of the surveyed customers are Standard Bank customers (see Figure 9). This may skew the performance in favour of Standard Bank. The analysis uses averages, to try and overcomes this skewness. There is an opportunity for further research using customer numbers that are proportional to the market share of each of the surveyed banks.

3.3.7 External validity

External validity is about the ability of the research to be generalised across the whole population (Daines 2007). The validity is increased by having a large sample size as well as by ensuring that the sample is a close representation of the population.

This study samples customers across all customer retail banking customer segments, making it sufficiently representative to cover the variances in the population. The sample is also drawn across all the main retail banks in South Africa and therefore the results can be applied with confidence across the whole retail banking industry of South Africa.

3.3.8 Internal validity

Internal validity is about the extent to which the data can be used to draw valid conclusion. Problems can be as a result of poor questionnaire design as well as how well the respondents understand the questions (Daines 2007). This study improved this validity by testing the questionnaire first before rolling out to ensure that the questions are a true reflection of the information sought after.

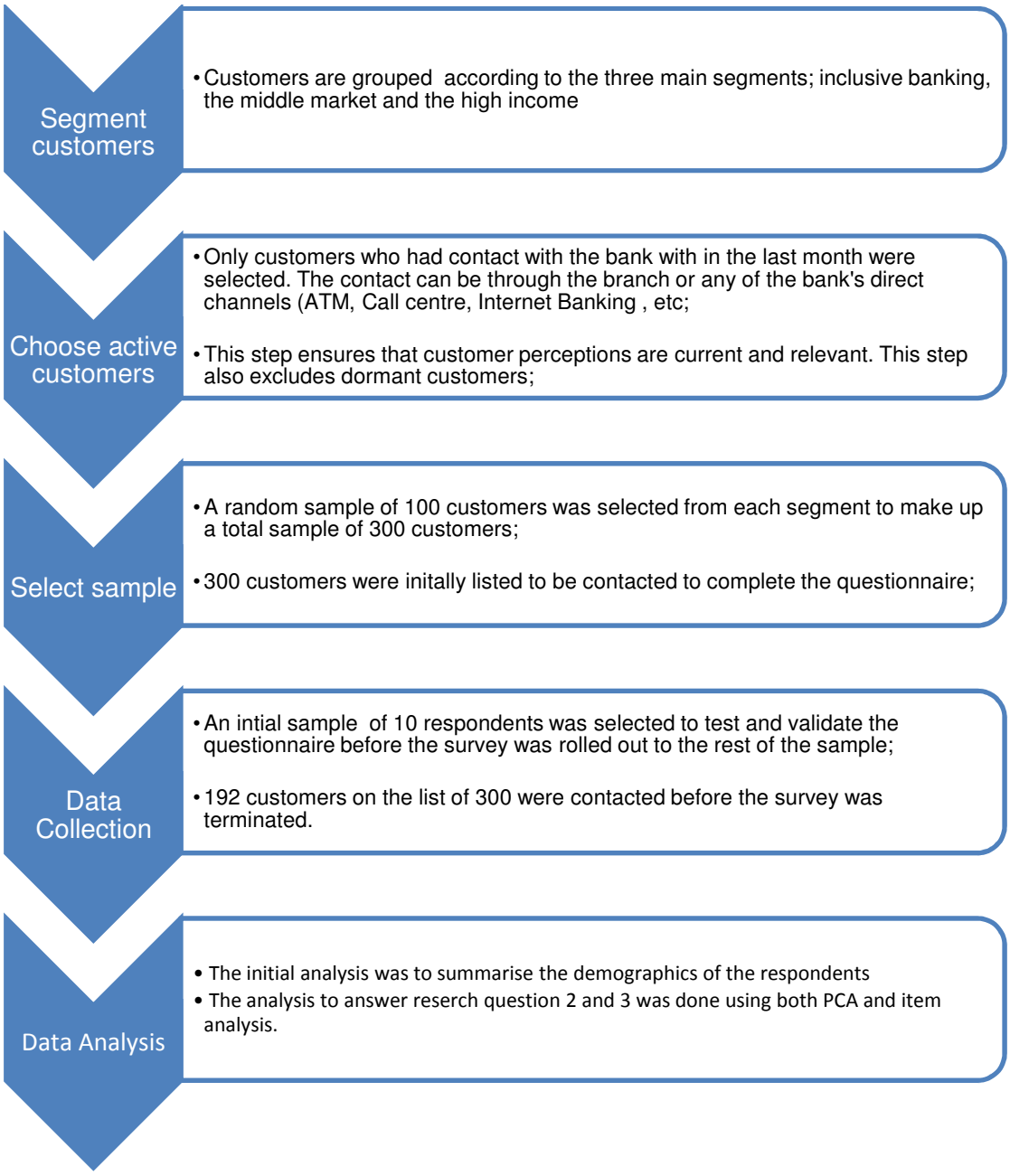
3.3.8 Reliability

To ensure the reliability of the survey, the questionnaires are adopted from previous research on the same subject. These are Daines (2007) and Khatri (2010). Similar survey methodology was used on the banking industry by Bick (2007).

3.3.9 Overview of analysis

Figure 4 below shows the flow of the quantitative analysis from sampling through data collection to analysis and interpretation:

Figure 4: Quantitative analysis



CHAPTER 4: ANALYSIS AND PRESENTATION OF RESULTS

4.1 Introduction

The results of the data collection and analysis are presented in this chapter. The results are presented according to the two phases of the research in line with the research methodology followed. The results of the qualitative survey will be presented first followed by the results of the quantitative survey.

4.2 Qualitative Research Results: Focus groups

Three focus groups were held as presented in section 3.2.3 above, with the aim of identifying the main drivers and the sub-drivers of Customer Equity from the customer's point of view.

4.3 Drivers of Customer Equity: Research Question 1

The objective of the focus groups was to come up with a comprehensive list of the sub-drivers of Customer Equity that are important to South African retail banking customers. Focus group respondents were also required to group the sub-drivers into the three main drivers of Customer Equity as identified by Rust et al (2000); which are Value Equity, Brand Equity and Relationship Equity. This section presents the sub-drivers from the focus groups according to the three main drivers of customer equity.

4.3.1 Value Equity

The table below presents the sub-drivers of value as identified through the focus groups and refined further based on literature.

Table 2 : Sub-drivers of Value Equity

Driver	Description
Safety and Security	Customers would not keep their money in the bank when they feel that the funds are insecure;
Accessibility or Convenience of banking services	Convenience is based on all the available banking channels which include branches, ATMs, online banking, cell-phone banking the bank's call centre;
Account features and benefits	This is the service (product) that the customer is buying and it includes the different types of transactions and services available to customer;
Cost of Banking	Customers want to keep these monthly banks charges, transaction charges, interest charges and any other ad hoc fees as low as possible. These costs need to reflect the value received from the other drivers; customers would pay high fees if they feel that they are receiving value for their money;
Interest earned on positive balances	Customers who have savings and investment accounts view this as one of the main factors in deciding where to save and invest;
Reliability of the banking systems	The inability to complete a transaction because of the unavailability of the banking systems takes away the value that is provided by the account features and benefits;
Provides all the services that I need from a bank	Customers want the bank to be a one-stop-shop providing solutions that addressed all their financial service needs;
Efficiency	Customers expect all queries and requests to be completed speedily and accurately according to their instruction.

4.3.2 Brand Equity

The sub-drivers of Brand Equity as identified through focus groups are presented is the table below:

Driver	Description
Aesthetics and appearance	Customers expect clean, well maintained outlets with an inviting appeal. The look and feel all the bank's outlets define the bank's image;
Bank advertisements and promotions	Most of the Bank's adverts are meant to sell specific products or promote the bank in general; however customers are conscious of the subliminal messages in these adverts that express the bank's brand promise;
Brand image and Brand reputation	A good (strong) image and reputation is based on perceptions build over time. Each of the banks has a certain image in the customers' minds;
Innovation	Innovation is valuable to the extent that it directly address the customer's needs and make the banking experience better and deliver more value;
Bank's involvement in community and social activities	Customers are becoming more and more concerned about the Corporate Citizenship of their service provides. Thus the bank's involvement is sponsorships and community activities goes a long way in enhancing its corporate citizenship;
Recommendations by friends and family	A negative word-of-mouth chases away potential customers; however customers do not necessarily go with the bank that has the highest praise from family and friends;
Consistency	Customers expect a similar brand experience, feel and level of efficiency across all touch points;

4.3.3 Relationship Equity

The sub-drivers of Relationship Equity as identified through focus groups are presented is the table below:

Table 3: Drivers of Relationship Equity

Driver	Description
Friendly service environment	Customers want to be serviced in a comfortable and inviting service environment where they get the sense that they are treated with empathy;
Loyalty rewards	Customers want recognition for their contribution to the bank, based on either the length or the value of the banking relationship. Recognition must deliver real value, whether through a formal loyalty programme or an *ad hoc* discount or a free-bee;
Bank's understanding of personal financial needs and giving personalised services	Customers want to be treated as individuals with individual financial needs. Relationship equity is destroyed when customers feel that they are just a number and the bank does not have the appetite to understand their individual financial needs;
Proactive communication about changes on my account	Customers feel that the banking relationship that exists between them and the bank has been betrayed when the bank make changes without communicating to the customers.

4.3.4 Summary of Qualitative Results

The qualitative part of the research was conducted to identify the main drivers and the sub-drivers of Customer Lifetime Value to answer research question 1. The sub-drivers identified through focus groups were validated using current literature on the subject. Table 4 below presents the final list of the Sub-drivers of Customer Equity.

Table 4: Drivers of Customer Equity

Sub-Driver	Main Driver
1 Friendly service environment	Relationship
2 Safety and security	Value
3 Accessibility (convenience) of banking services (branches, ATMs and consultants)	Value
4 Account features and benefits	Value
5 Loyalty rewards	Relationship
6 Bank charges and interest on loans and overdrafts	Value
7 Interest earned on positive balances	Value
8 Bank understanding my personal financial needs and gives me personalised services.	Relationship
9 Aesthetics and appearance (Look and feel and neatness)	Brand
10 Bank advertisements and promotions	Brand
11 Proactive communication about changes on my account	Relationship
12 Brand image and Brand reputation	Brand
13 Reliability of the banking systems	Value

14 Efficiency (Speed and accuracy in completing queries and requests	Value
15 Provides all the services I need from a bank (one stop shop)	Value
16 Innovation	Brand
17 Bank's involvement in community and social activities	Brand
18 Recommendations by friends and family	Brand
19 Consistency (similar experience and efficiency across all touch points)	Brand

For the qualitative part of the research respondents are asked to indicated the relative importance of each of the 19 sub-drivers as well rate the performance of South African's big four retail banks on each of the drivers.

4.4 Quantitative research results

The Questionnaire was sent to a targeted group of 192 customers who bank with one or more of the big four banks. The list was taken from a Standard Bank Database; these details are kept on the Standard Bank database for the sake of marketing research.

The response to the questionnaire resulted in 85 initial individual responses. The data was then cleaned to:

- Firstly, exclude all respondents who did not rank the sub-drivers of Customer Equity in question 7. The primary purpose of the qualitative part of the research is to rate the relative importance of the sub-drivers, therefore is a responded did not respond to this section, their questionnaire give very little useful information;

- Secondly, to remove responses where the variance across all ratings was equal to zero, indicating that the respondent had rated all 19 factors equally and not given sufficient consideration to the importance of the individual factors; and finally
- Remove responses where the respondents did not bank with any of the four big banks. These are respondents who bank with specialised banks (either private banks or low cost niche banks). Customers who bank with one of the big four banks in addition to the any other bank are not removed.

The total number of complete clean responses is 67.

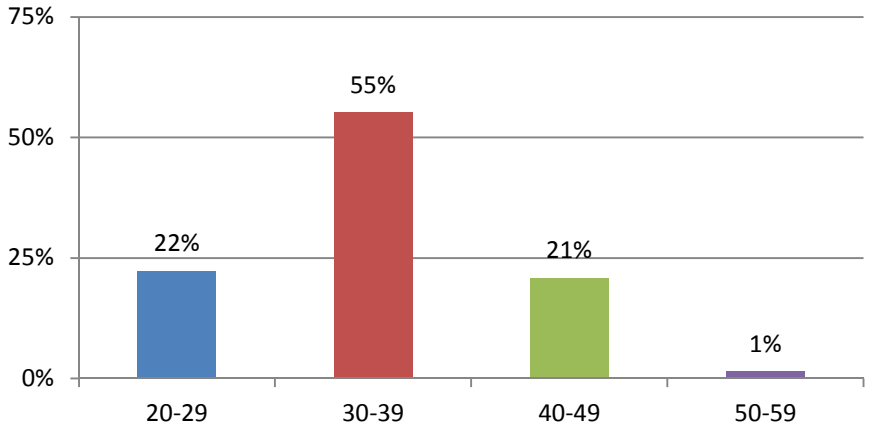
4.4.1 Demographics

The demographic information collected for this research is on the gives insight into the gender, age, income and racial profiles of the respondents. This information can be used to show the specific preference of each cluster as well as the specific perception of each cluster. This research however concentrates on the overall preference of the entire sample as well as the overall rating of the entire sample.

4.4.2 Age Distribution

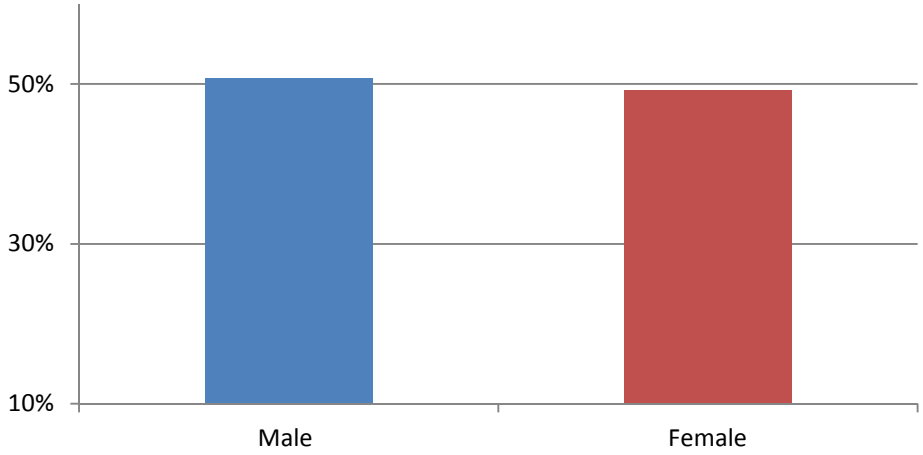
The majority (55%) of the respondents fall in the 30-39 age categories. This is mainly because the majority of the economically active banked population fall within this age category. The rest is divided as follows 21 – 29 age group constitutes 22%, the 40 – 49 age groups constitute 22% and there is one individual (1%) over 50.

Figure 5: Age Distribution



4.4.3 Gender Distribution

Figure 6: Gender Distribution

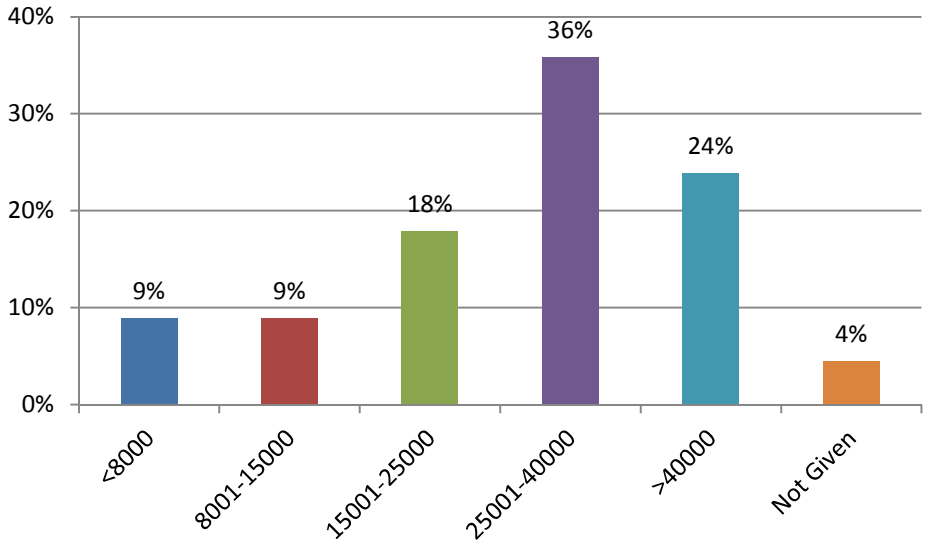


There is a near equal distribution between male (51%) and female (49%) in terms of gender.

4.4.4 Income bracket

The majority if the respondents are in the respondents are in the three income groups 25 000 to 40 000 (36%), followed by 40 000 to 50 000 (24%) and the 15 000 to 25 000 at 18%. The < 8000 and the 8001-15 000 both have 9% each.

Figure 7: Income bracket

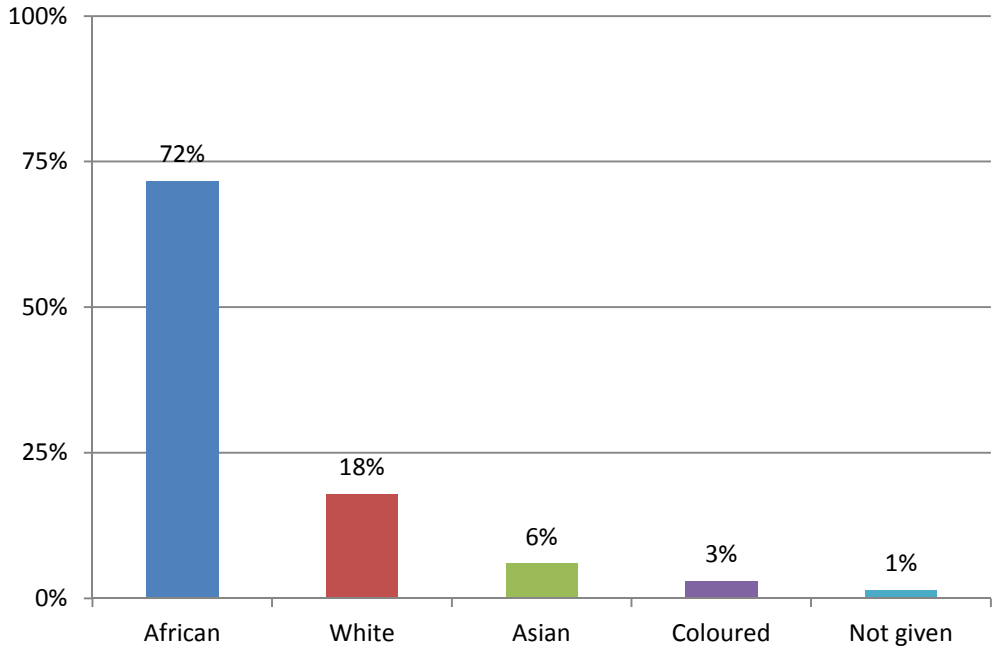


These three income groups are generally the most profitable income groups who afford to take up multiple products with the bank. They are classified as ‘middle market’ and ‘prestige’ customers. The sample excluded the above customers who are in the above 50 000 income group. This is because these customers are private banking customers whose banking needs are generally varied across individuals. These customers are also serviced individually through dedicated private bankers. Their needs are therefore normally understood and meet at individual level.

This group might not be as profitable as the other three but it is still very important to the bank because the younger population is this group forms the pipeline into the higher income groups. 4% of the respondents elected not to provide information on income group.

4.4.5 Race

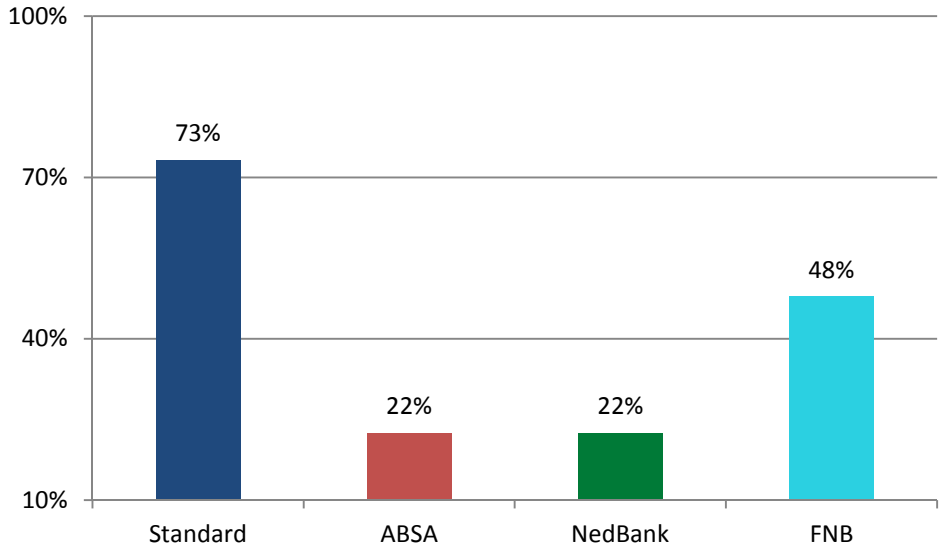
Figure 8: Race



The majority of the respondents are Africans, followed by Whites, then Asians and Coloureds. This is in line with the race distribution in South Africa, even though the proportion is not according to scale.

4.4.6 Banks where accounts are held

Figure 9: Banks were accounts are held



4.5 Item analysis

The data from the Quantitative Research questionnaires was used to perform validity and reliability tests on the drivers and the sub-drivers of that were identified through qualitative research. The results from these tests were however not be used to change results from the focus group but to further explain and validate the drivers as well as guide the rest of the quantitative analysis.

Cronbach's Alpha is used to test the reliability of the three constructs: Brand Equity, Value Equity and Relationship Equity. A Cronbach's Alpha should be at least 0.6 to be acceptable. Any value less that 0.6 indicates unsatisfactory internal consistency/ reliability (Aaker and Day 1980). As can be seen from table 7, the Cronbach's Alpha for all three constructs exceeds 0.6 indicating acceptable reliability. Table 5 shows good reliability for the three drivers of Customer Equity identified.

Table 5: Reliability

Construct	Cronbach's Alpha
Brand Equity	0.796
Value Equity	0.712
Relationship Equity	0.715

Although the reliability results show an overall good reliability for the three constructs, Safety and Security has very low fit as a sub-driver of Value Equity. Table 6 shows that the correlation of 'Safety and Security' (Variable Q7_2) is less than 0.1 which indicates that the variable does not fit as part of the group. If this variable is omitted from the group, the Cronbach's Alpha for Value Equity increases from 0.718 to 0.743.

Table 6: Value Reliability

	If Item is Omitted	
Variable	**Cronbach's Alpha**	**Correlation**
Q7_2	0.7433	0.0765
Q7_3	0.7047	0.3361
Q7_4	0.6442	0.6246
Q7_6	0.6604	0.5357
Q7_7	0.6904	0.4467
Q7_13	0.7122	0.2897
Q7_14	0.6808	0.4830
Q7_15	0.6684	0.5062
Total	0.7186	

For all the analysis that pre-supposes a good fit, Safety and Security is not analysed as part of Value Equity. This driver does not fit in the other two drivers; therefore it is classified separately for the rest of the analysis.

4.6 Principal Component Analysis (PCA)

Principal Component Analysis (PCA) was performed on the data from the questionnaires to identify the underlying constructs in the data and reduce the variables to a more manageable set (Aaker et al 2004). The reliability of PCA results is considered to be good if the number of subjects providing usable data for the analysis is the larger of 100 subjects or five times the number of variables being analyzed. The rules regarding the number of subjects per variable apply only under two optimal conditions for principal component analysis: when many variables are expected to load each component, and when variable communalities are high (SAS, 2012).

To make the interpretation of the resulting factors easier, Varimax rotation was conducted. The following rules are used to determine the appropriate number of factors that explain a reasonable potion of variance in behaviour (Aaker et al 2004):

- Eigenvalue: an eigenvalue is the amount of variance in the original variables that are associated with a factor. Factors with eigenvalues greater than 1.0 are retained. This identified 5 factors for inclusion.
- Scree Plot: This is a plot of the eigenvalues against the number of factors in order of extraction. There is a distinct break between the steep slope of the factors that explain significant variance and those that explain little variance. The number of factors to be included is determined by this break. This identified the same 5 factors for inclusion.
- Percentage of Variance: The number of factors extracted is determined so that the cumulative variance reaches a satisfactory level; a minimum

of 60% of the variance is recommended. This identified 4 factors for inclusion.

According to Aaker et al (2004), the general rule is to stop factoring when the factors stop making sense. The analysis of the fifth factor did not reveal any further insights; therefore only 4 factors were used. The 4 factors account for 60.85% of the variance, which is higher than the recommended minimum of 60% when using the percentage of variance. Below is the summary of the Principal Component Analysis.

Table 7: Results of PCA Analysis

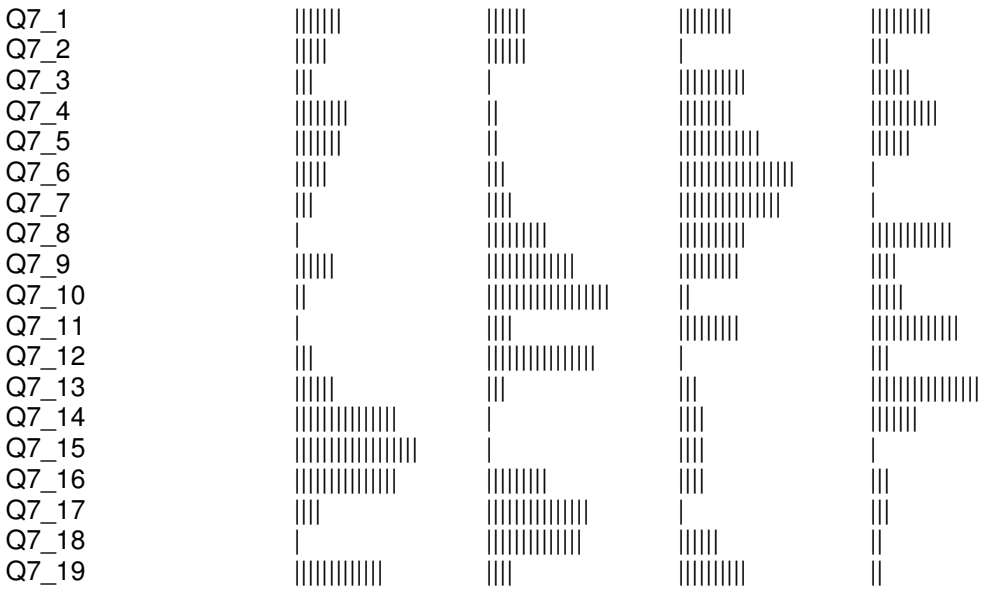
Eigenvalues after Varimax Rotation

No.	Eigenvalue	Individual Percent	Cumulative Percent	Scree Plot
1	2.923425	15.39	15.39	||||
2	3.480431	18.32	33.70	||||
3	3.066145	16.14	49.84	||||
4	2.091270	11.01	60.85	|||
5	1.139402	6.00	66.85	||
6	0.941167	4.95	71.80	|
7	0.827145	4.35	76.15	|
8	0.794842	4.18	80.34	|
9	0.626553	3.30	83.63	|
10	0.480576	2.53	86.16	|
11	0.465005	2.45	88.61	|
12	0.447476	2.36	90.97	|
13	0.387342	2.04	93.00	|
14	0.317085	1.67	94.67	|
15	0.271217	1.43	96.10	|
16	0.254783	1.34	97.44	|
17	0.191937	1.01	98.45	|
18	0.150882	0.79	99.25	|
19	0.143318	0.75	100.00	|

Below is the summary of the factors loadings and the factors from the Principal Component Analysis.

Table 8: Absolute Factor Loadings after Varimax Rotation

Variables	Factors Factor1	Factor2	Factor3	Factor4



All the underling elements are loaded to at least one of the factors, except for Safety and Security. This is in line with the results from the Item Analysis.

Table 9: Factor Structure Summary after Varimax Rotation

Factor1		Factor2		Factor3		Factor4	
Q7_15	Providing all the services I need	Q7_10	Adverts and Promotions	Q7_6	Bank Charges	Q7_13	Reliability of the banking systems
Q7_16	Innovation	Q7_12	Brand Image and reputation	Q7_7	Interest earned	Q7_11	Proactive communication
Q7_14	Efficiency	Q7_17	Corporate Social involvement	Q7_5	Loyalty rewards	Q7_8	Personalized service
Q7_19	Consistency	Q7_18	Recommendations from friends and family	Q7_3	Accessibility	Q7_4	Account Features
		Q7_9	Aesthetics and appearance	Q7_19	Consistency	Q7_1	Friendly service environment
		Q7_8	Personalised service	Q7_8	Personalised service		
		Q7_16	Innovation	Q7_11	Proactive communication		
				Q7_9	Aesthetics and appearance		
Customer Experience		Brand image		Value		Retention (relationship)	

The ‘percentage of variance’ method identifies four factors, one more than the three from the qualitative research.

Cronbach’s Alpha is used to test the reliability of the four factors. Although the items appear to cluster together into these factors, they still need to be tested for internal consistency. The results for the reliability tests for the factors are as below:

- Factor 1: 0. 8247
- Factor 2: 0. 8256
- Factor 3: 0. 7782
- Factor 4: 0. 7266

All the Cronbach’s Alphas are above 0.6, indicating acceptable reliability. It can therefore be concluded that all the factors are reliable.

4.7 The Main Drivers: Research Question 1

PCA analysis revealed the following factor loadings which can be used to classify the sub-driver into main drivers.

4.7.1 Factor 1: Customer Experience

Factor 1 has high loading the following variables:

- Q7_15 Providing all the services I need from a bank
- Q7_16 Innovation
- Q7_14 Efficiency
- Q7_19 Consistency

These are sub-drivers of both Brand Equity and Value Equity that enhance the customer's banking experience. This factor is therefore termed **Customer Experience** and it explains 15.39 % of the variance.

4.7.2 Factor 2: Brand Equity

Factor 2 has high loading mainly from the drivers of **Brand Equity**:

- Q7_10 Adverts and Promotions
- Q7_12 Brand Image and reputation
- Q7_17 Corporate Social involvement
- Q7_18 Recommendations from friends and family
- Q7_9 Aesthetics and appearance
- Q7_8 Personalised service
- Q7_16 Innovation

Personalised services which was originally classified under Retention (Relationship) has high loading under both Brand Factor and the Retention factor. This is because, even though the 'understanding of personal financial needs' is more about relationship, the provision of 'personalised service' enhances the bank's Brand and Image.

4.7.3 Factor 3: Value Equity

Factor 3 has high loading from mainly the drivers of Price, Accessibility, Convenience and quality. The main elements in this factor are the sub-drivers of **Value Equity**, and they are usually the elements that the customer consider in making the initial decision to use a particular bank.

- Q7_6 Bank Charges
- Q7_7 Interest earned
- Q7_5 Loyalty rewards

- Q7_3 Accessibility
- Q7_19 Consistency
- Q7_8 Personalised service
- Q7_11 Proactive communication
- Q7_9 Aesthetics and appearance

Literature on Customer Equity classifies Loyalty rewards and personalised services under retention, but it should be noted that customers often associate these with value. For example, Loyalty rewards are often used to reduce banking fees and personalised service often means that the customer can get access to a product that might not otherwise be available to them.

4.7.4 Factor 4: Relationship Equity

Factor 4 has high loading form **Relationship Equity**, that is:

- Q 7_13 Reliability of the banking systems
- Q 7_11 Proactive communication
- Q 7_8 Personalized service
- Q 7_4 Account Features
- Q 7_1 Friendly service environment

The other sub-drivers in this factor are strongly associated with Retention. For example, the ‘reliability of banking systems’ is crucial to retaining customers since unreliable banking systems will cause customers to leave the bank.

The cronbanch alpha reliability test and the PCI analysis revealed that safety and security does not have good fit in any of the grouping. This means that customers do not consider this as a sub-driver of Value Equity or any other driver, but as a driver of value on its own. Customers only indicated this as part of Value Equity because of forced ranking. It is interesting to note that during the focus groups sessions, customers did not specifically mention ‘Safety and

Security', however, after being prompted, all customers agreed that safety and security is crucial and they will not keep their money on a bank where they feel that the funds are not secure. Safety and Security is therefore viewed more as a prerequisite to choosing a bank rather than a driver of value. As soon as customers have a perception that their funds are not secure, they would change banks. Also, customers avoid using banking channels that they perceive to be insecure.

4.8 Driver and sub-driver ranking: Research Question 2

The factors listed in Table 4 are used in the qualitative survey to answer research question 2. This question seeks to establish the relative importance of each of the drivers and sub-drivers of Customer Equity as identified in the qualitative research. The importance of each of the sub-drivers is rated on a scale of 1 to 5.

4.8.1 Sub-drivers ranking

The mean of each of the sub-drivers is used to rank the importance of the 19 sub-drivers. Table 10 shows the ranking of the sub-drivers from the most important to the least important. The results from PCA show that some of the sub-drivers can be classified under different drivers to that from the Focus Groups. The detailed results of the driver ranking is presented in Appendix E

Table 10: Ranking of sub-drivers according to Importance

	Sub-driver	Mean
1	Reliability of the banking systems	4.77
2	Safety and security	4.73
3	Efficiency (Speed and accuracy)	4.65
4	Accessibility and convenience of banking services	4.39

5	Provides all the services I need from a bank	4.29
6	Friendly service environment	4.20
7	Consistent similar experience across all touch points	4.12
8	Bank charges and interest on loans and overdrafts	4.08
9	Proactive communication about changes on my account	4.06
10	Innovation	4.05
11	Account features and benefits	4.03
12	Bank understanding my personal financial needs and gives me personalised services.	3.97
13	Interest earned on positive balances	3.65
14	Brand image and Brand reputation	3.50
15	Aesthetics and appearance (Look and feel)	3.47
16	Bank's community and social involvement	3.42
17	Loyalty rewards	3.12
18	Bank advertisements and promotions	2.85
19	Recommendations by friends and family	2.82

The results show that retail banking customers consider the Reliability of Banking Systems to be the most important sub-driver of Customer Equity followed by Safety and Security. Customers do not derive much equity from loyalty and promotions and they consider recommendations from friends and family as the least important factor.

4.8.2 Ranking of the main drivers

From the literature reviewed, the sub-drivers had been grouped into Brand Equity, Value Equity and Relationship Equity. However, PCA analysis in Section 4.6 yielded an additional driver termed: Customer Experience.

The results of the Item Analysis, which is based on the simple calculation of the means of the original constructs, showed the following ranking:

Table 11: Ranking using simple means

Driver	Mean (5-point Scale)
Value Equity	4.26
Relationship Equity	3.83
Brand Equity	3.44

This shows that Value Equity is the most important driver of Customer Equity followed by Relationship Equity and lastly Brand Equity.

4.9 Bank performance: Research Question 3

Research Question 3 rated the performance of each of the four major banks (Standard Bank, ABSA, FNB and Nedbank) on each of the sub-drivers on a 10 point scale. Table 12 below shows the summary of the average ratings per bank per sub-driver.

Table 12: Bank performance

Variable	Standard Bank	ABSA	Nedbank	FNB
Friendly service environment	7.44	5.44	5.44	7.33
Safety and security	7.22	5.78	6.11	7.00
Accessibility and convenience	7.22	7.33	4.89	6.44
Account features and benefits	6.67	5.67	4.78	7.56
Loyalty rewards	5.44	4.78	4.44	7.00
Bank charges and interest	6.00	4.11	4.00	6.11
Interest earned on positive balances	5.33	4.56	5.22	4.67
Personalised Service.	5.78	5.22	4.00	6.22

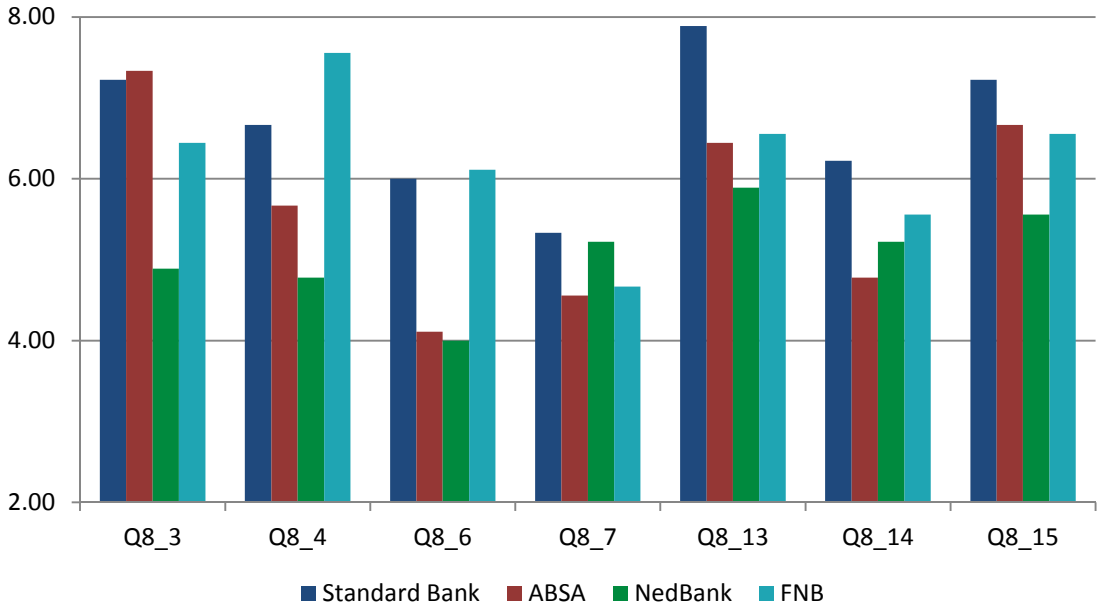
Aesthetics and appearance	7.44	5.11	5.22	6.33
Advertisements and promotions	5.67	5.33	4.67	7.22
Proactive communication	5.56	4.78	5.11	7.00
Brand image and reputation	7.44	5.22	5.67	6.67
Reliability of the banking systems	7.89	6.44	5.89	6.56
Efficiency (Speed and accuracy)	6.22	4.78	5.22	5.56
Provides all the services I need	7.22	6.67	5.56	6.56
Innovation	5.67	5.22	4.44	7.33
Corporate social involvement	6.78	6.78	6.00	5.67
Recommendations by friends and family	6.67	5.44	4.33	7.00
Consistency	7.11	5.89	4.89	5.67

4.9.1 Performance on Value Equity

The performance rating of each of the four major banks on the sub-drivers of Value Equity is presented in Figure 10 below. These sub-drivers as presented in Table 4 under Section 4.3.4 are:

- Q 8_3 Accessibility and convenience of banking services,
- Q 8_4 Account features and benefits,
- Q 8_6 Bank charges and interest on loans and overdrafts,
- Q 8_7 Interest earned on positive balances,
- Q 8_13 Reliability of the banking systems,
- Q 8_14 Efficiency (Speed and accuracy), and
- Q 8_15 Provides all the services I need from a bank

Figure 10: Performance on Value Equity



Standard Bank is the best performing bank on four of the sub-drivers which are: Q8_13 (Reliability of the banking systems), Q8_15 (Providing all the services the customers need from a bank), Q8_14 (Efficiency), and Q8_7 (Interest earned on positive balances). FNB is the best performing bank on the Q8_4 'Account Features and Benefits'; it is also considered to be the cheapest bank. ABSA is rated as the most 'Convenient and Accessible' bank across the Big four Banks. There no sub-driver on which Nedbank outperformed any of the other three banks.

Standard Bank, FNB and ABSA outperformed all the other three banks on the sub-driver on which they are rated highest. Standard Bank's highest rating is on 'Reliability', and it is the best performing Bank on reliability. FNB's highest rating is on 'Account features and Benefits' and it is the best performing Bank on 'Account features and Benefits'. ABSA's highest rating is on 'Accessibility and Convenience', and it is also the best Performing bank on this driver. Nedbank received its highest rating on 'Reliability'; however it is the worst performing bank on this sub-driver. Therefore, each of the Banks has managed to

distinguish itself on at least one value driver that it performs better than the rest, except for Nedbank. This might be because the factor that Nedbank uses to distinguish itself in not considered as one of the sub-drivers of value.

It should be noted that customers generally rate banking systems as reliable; even though Nedbank is rated as having the lowest reliability, this is the sub-driver for which Nedbank has received the highest rating. On the other hand, all the banks are rated very low on interest earned on positive balances. Customers generally feel that retail banking accounts attract little interest.

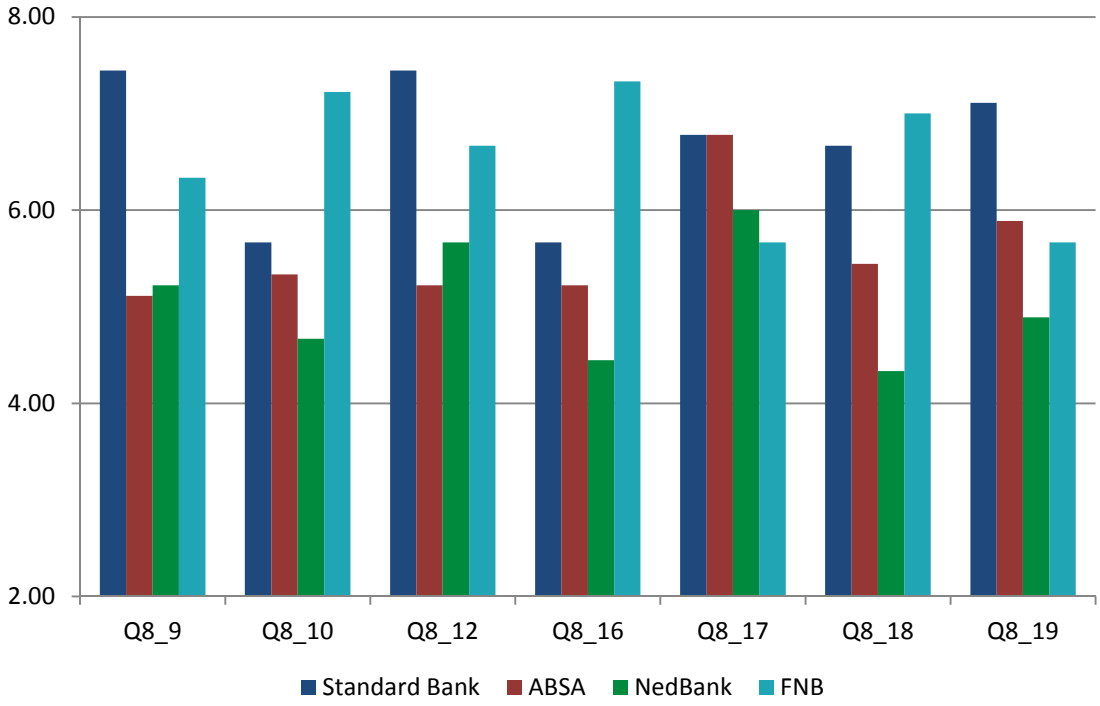
Customers generally feel that both Nedbank and ABSA are significantly more expensive compared to FNB and Standard Bank. Even though FNB is rated cheaper than Standard Bank, the difference in the performance is marginal (6.11 compared to 6). Nedbank is rated the most expensive, but its performance is also marginally different to that of ABSA (4 compared to 4.11).

On the three drivers where Standard Bank is second best to another bank (Accessibility, Account Features and Cost of Banking) the difference is marginal. Thus, Standard Bank has distinguished itself on a number of drivers but has still remained competitive on the drivers that it is not leading on.

4.9.2 Performance on Brand Equity

The results of the Brand performance rating is presented in Figure 11 below:

Figure 11: Performance on Brand Equity



The sub-drivers of Brand Equity are:

- Q 8_9 Aesthetics and appearance (Look and feel)
- Q 8_10 Bank advertisements and promotions
- Q 8_12 Brand image and Brand reputation
- Q 8_16 Innovation
- Q 8_17 Bank's community and social involvement
- Q 8_18 Recommendations by friends and family
- Q 8_19 Consistent similar experience across all touch points

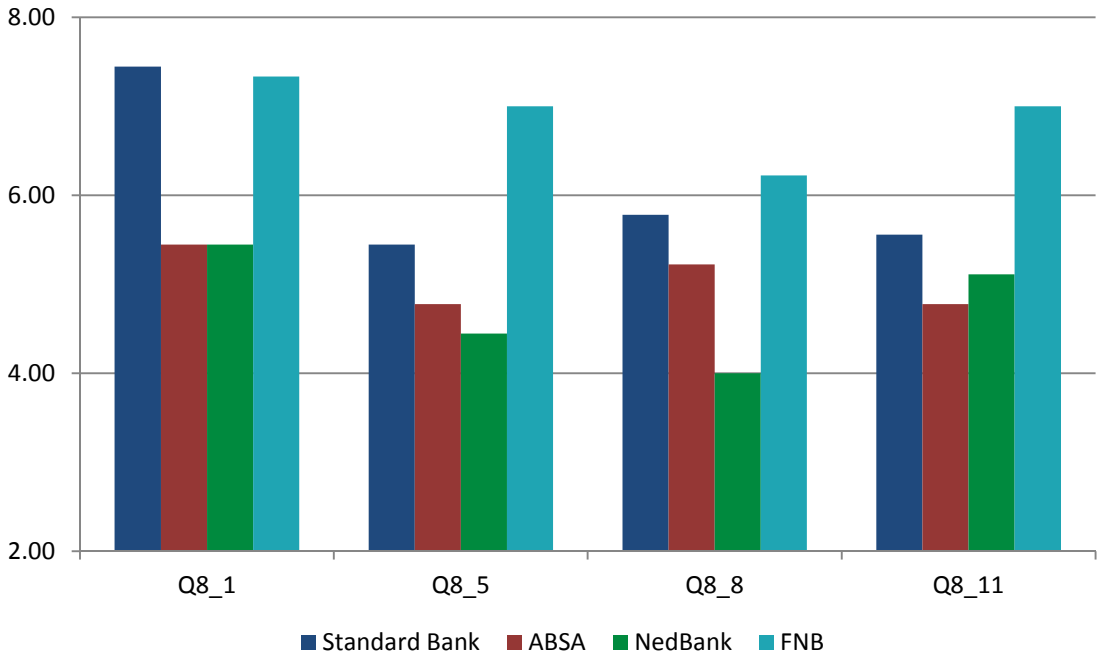
FNB outperforms all the other banks on Q8_10 (Bank Advertisements and Promotions), (Q8_16) 'Innovation' and is the most 'Recommended' bank (Q8_18). Standard Bank outperforms the other banks on Q8_9 (Aesthetics and Appearance), Q8_12 (Brand Image and Reputation), and Q8_19 (Consistency). ABSA and Standard Bank are rated equally above Nedbank and FNB on their

involvement in community and social involvement. Nedbank's highest rating is on Community and Social Involvement; however, it is not the best performing bank on the sub-driver. It is outperformed by ABSA and Standard Bank.

4.9.3 Performance on Relationship Equity

The results of Relationship (Retention) rating are as below:

Figure 12: Performance on Retention



The driver of retention Equity are:

- Q 8_1 Friendly service environment
- Q 8_5 Loyalty rewards
- Q 8_8 Understanding personal financial needs and giving personalised services.
- Q 8_11 Proactive communication about changes on my account

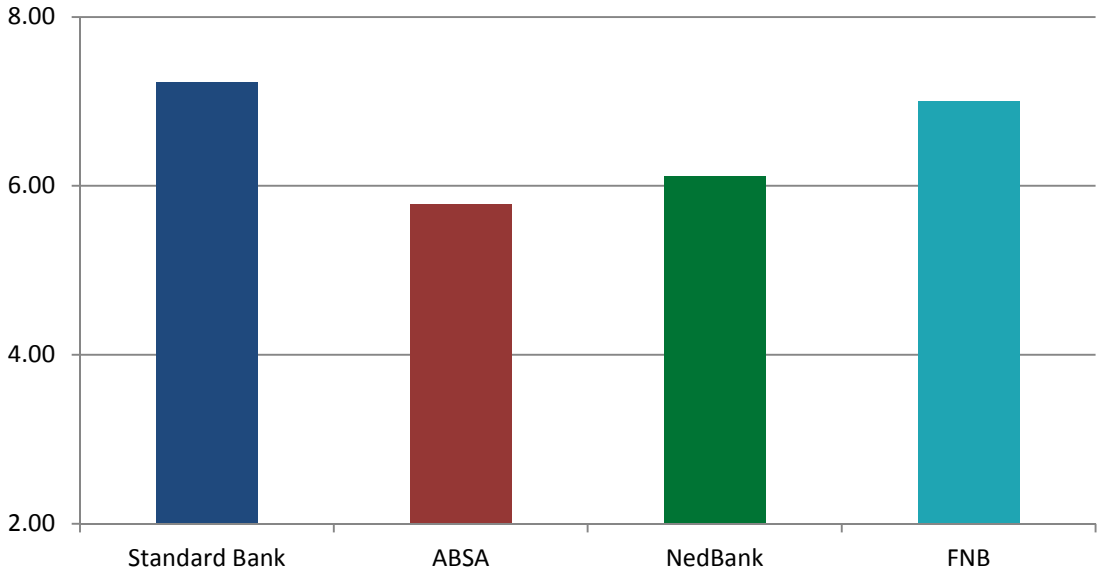
FNB outperforms all the other Banks on Q 8_5 (Loyalty Rewards), Q8_8 (Understanding personal financial needs) and on Q8_11 (Proactive communication). It is marginally outperformed by Standard Bank on Q8_1 (Friendly service environment).

Both Nedbank and ABSA's performance is below Standard Bank and FNB on all the drivers. Their highest ranked driver is Q8_1 (Friendly Service Environment), but their performance is way below Standard Bank and FNB's performance on these drivers.

4.9.4 Performance on Safety and Security

Safety and security was classified independently after reliability tests, since it did not fit with any of the constructs. Standard Bank performs marginally higher than FNB on Safety and Security, while ABSA is rated as the most insecure bank.

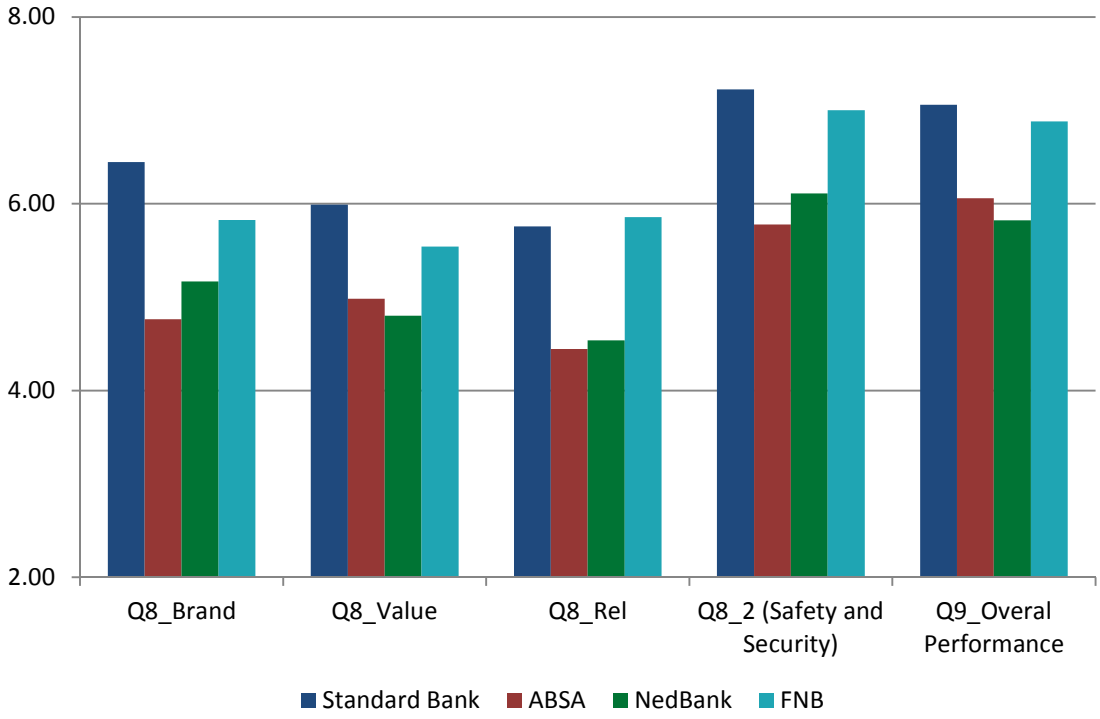
Figure 13: Performance on Safety and Security



4.9.5 Overall performance

Respondents were also asked to provide their overall rating of each of the banks. This question allows the respondent to do their own weighting of the drivers which is not properly captured when statistically combining the sub-drivers weighting to the performance on the individual sub-drivers. The overall performance is also presented in the graph (Figure 14) below.

Figure 14: Overall performance



Standard Bank outperforms the other banks on 'Brand', 'Value', and 'Safety and Security'. FNB is second best on these three Drivers. FNB marginally outperforms Standard Bank on 'Relationship Equity'.

When customers consider the overall performance, Standard Bank is ranked the Bank that provides the highest Customer Equity. On a scale of 1 to 10 Standard Bank is ranked 7.06 followed closely by FNB at 6.88 then ABSA at 6.06 and last, Nedbank at 5.82. This is in line with the results of the ranking on the sub-drivers where Standard Bank is the best performing on most of the sub-drivers followed by FNB. Nedbank does not outperform the other banks on any of the sub-drivers and is the worst performing on most of the sub-drivers.

4.10 Summary of the results

Table 13 is the summary of all the sub-drivers ranked according to relative importance. The drivers from the PCA analysis are contrasted to the initial drivers as per literature review and focus group analysis.

Table 13: Summary of Drivers

	Sub-driver	Driver as per PCI Analysis	Focus Group classification
1	Reliability of the banking systems	Relationship	*Value*
2	Safety and security		*Value*
3	Efficiency (Speed and accuracy)	Customer Experience	*Value*
4	Accessibility and convenience	Value	*Value*
5	Provides all the services I need	Customer Experience	*Value*
6	Friendly service environment	Relationship	*Relationship*
7	Consistency	Customer Experience	*Brand*
8	Bank charges and interest	Value	*Value*
9	Proactive communication	Value	*Relationship*
10	Innovation	Brand /Customer Experience	*Brand*
11	Account features and benefits	Relationship	*Value*
12	Personalised services.	Relationship /Brand / Value	*Relationship*
13	Interest earned on positive balances	Interest	*Value*
14	Brand image and reputation	Brand	*Brand*

15	Aesthetics and appearance	Brand /Value	*Brand*
16	Corporate social involvement	Brand	*Brand*
17	Loyalty rewards	Value	*Relationship*
18	Advertisements and promotions	Brand	*Brand*
19	Recommendations by friends and family	Brand	*Brand*

CHAPTER 5: DISCUSSION AND ANALYSIS

5.1 Introduction

This chapter analysis and discusses the practical implications of the results presented in the previous chapter. The demographics of the respondents is discussed first in order to give context to the customers used in the research. This is followed by the discussion on the drivers and their relative importance. The discussion on Research Question 1 and Research Question 2 are combined so that the drivers and the sub-drivers can be explained in the context of their importance to the customers. Lastly the performance of the banks is discussed in relation to the relative importance of the sub-drivers.

5.2 Demographic Profile of Respondents

The sampling took into account the demographics of the South African banked population across age, gender and race. However, the income brackets were based on the segmentation by the banks as well as the profitability (average Customer Lifetime Value) of the customer.

There are three main segments in retail banking which are: Entry, Middle and Prestige levels. The Entry level segment, which makes up 9% of the respondents, is usually divided into two groups; the younger population (18 to 35 years) with a higher potential of major changes in income and banking profile in the near future, and the older population whose income has stabilised and are likely to remain in the same segment in the medium to long term. The Entry level might not be as profitable as the middle market and the prestige customers, however it is very important to the bank because the younger population is this group forms the pipeline into the higher income groups.

The majority of the respondents were from the income group R25 000/month to R40 000 (36%), followed by R40 000 to R50 000 (24%) and the R15 000 to R25 000 at 18%. The lower end of the middle market (R8001-R15 000) makes up the remaining 9%.

The three income groups which constitute the majority of the respondents are generally the most profitable income groups who afford to take up multiple products with a bank. Customers who are in the above R50 000/month income group were excluded from this research because these customers are private banking customers whose banking needs are generally varied across individuals. And they are serviced individually through dedicated private bankers.

5.3 The sub-drivers and their relative importance

The discussion on Research Question 1 and Research Question 2 are combined here so that the drivers and the sub-drivers can be explained in the context of their importance to the customers.

5.3.1 Drivers of Value Equity

Value Equity is the customer's objective assessment of the utility of the brand, based on the perceived benefits versus what is sacrificed to enjoy these benefits. The main sub-drivers of Value Equity on the benefits side are quality and convenience. Price is the main sub-driver on the cost side, but customers take other non-monetary sacrifices as part of the cost (Rust et al 2000). Below are the sub-drivers of Value Equity in order of importance.

5.3.1.1 Reliability of the banking systems

All of the major banks in South Africa have now moved from book-based account management to system-based account management where account

activity is systematically and centrally authorised. All account activity authorised and is updated on a central server in real time. This banking automation means that banking services can only be accessed when the banking systems are on-line.

Customers open transactional accounts so that they can have 'on demand' access to funds. Funds that are not required on demand are normally held in accounts that earn a higher interest but do not provide on demand access. Customers therefore choose to forego the high interest in order to have on demand access. An unreliable banking system means that the 'on demand' access, which is the primary value of a transactional account, cannot be achieved. In that case the customer has foregone both the high interest and the 'on demand access.'

The development and maturity of electronic banking alternatives has significantly reduced customers' reliance on the size and location of branches. Banks have made electronic banking available to customers through self-service channels such as ATMs, Internet Banking and Cell-phone banking that are accessible around the clock. In positioning these electronic channels, banks have emphasised having anytime instant access to the customer's account anywhere. This positioning has strengthened the 'on demand' access expectations from the customer. Customers are therefore more intolerant of the inability to access their accounts when the system is down. Customers expect reliable electronic banking systems to reduce their reliance on branches while at the same time providing customers with more convenience, lower costs and higher satisfaction (Ibrahim, Joseph & Ibeh, 2006).

Unreliable banking systems also take away the value that is delivered by the other sub-drivers since the customer cannot access their accounts. For example, the fact that the bank's points of representation are convenient and easily accessible will be negated, if the systems are down and the customer cannot receive the service they require.

It was therefore expected that customers would rank the ‘Reliability of banking systems’ as the most important sub-driver of value.

5.3.1.2 Safety and Security

During the focus groups sessions, customers did not specifically mention ’Safety and Security’, however, after being prompted, all customers agreed that safety and security is crucial and they will not keep their money on a bank where they feel that the funds are not secure. Safety and Security is therefore viewed more as a prerequisite to choosing a bank rather than a driver of value. As soon as customers have a perception that their funds are not secure, they would change banks. Also, customers avoid using banking channels that they perceive to be insecure.

The cronbanch alpha reliability test showed that customers do not consider this as a sub-driver of Value Equity but as a driver of value on its own. Customers only indicated this as part of Value Equity because of forced ranking.

5.3.1.3 Efficiency

This is the speed and accuracy in completing queries and requests. The emergency of electronic self-service banking platforms means that most of the request and transactions are initiated on the self-service channels. The speed and usability of these channels as well as their ability to handle service requests according to customer requirements is the main driver of Efficiency.

In banking environments that are still very dependent on branches for all transactions, the speed of service delivery is still the second most important driver of value after the distribution and size of the branch network (Narteh & Owusu-Frimpong 2011). This remains important where customers rely on electronic channels, but customers want the channel to be reliable and secure

first. Fast internet is no good if it going to be down and insecure most of the time.

5.3.1.4 Accessibility or Convenience of banking services

Anderson et al (1976) found that the convenience and the size of the branch network were the most important factors that retail banking customers consider. For example, the distribution of the branch network together with the speed of service delivery is still the main driver of value in Ghana (Narteh & Owusu-Frimpong 2011). However, the branch network is no longer the main driver of convenience and accessibility in developed banking markets where electronic banking has matured (Ibrahim, Joseph & Ibeh, 2006).

Customers now consider the convenience of all the available banking channels, which include branches, bank consultants, ATMs, online banking, cell-phone banking as well as the bank's call centre. Of all the electronic banking platforms, only ATMs are bank provided devices. Internet banking, Cell phone banking and Telephone banking are accessible through customers' devices. Accessibility and convenience therefore becomes a moot point since this is by and large determined by the customer. The reliability, security and efficiency of these platforms become the main determinants of accessibility. This is why customers consider these drivers to be more important than convenience.

The size and distribution of the ATM network is now the main factor driving convenience and accessibility. ATMs, the primary channel used for cash transactions, a functionality that all the other electronic channels cannot perform. The ATM is also becoming a full service point of representation that can be used to complete more complex transactions like transfers and payments. Banks have developed ATMs to be a convenient alternative for customers who do not have access to internet banking. ATMs can now be used to do complex transactions like payments and printing statement. The convenience of ATMs has become an important driver of value for customers

who need access to both cash and other banking service the other services. Notwithstanding the importance of convenience, customers will use only ATMs that are perceived to be secure, reliable and efficient. Customers would rather travel a longer distance to access ATMs that are safe. Also customers avoid ATMs that often breakdown in the middle of a transaction or are frequently offline, no matter how conveniently they are located.

5.3.1.5 Account features and benefits

Retail banking has evolved from just demand deposits and fixed deposits where the main services required were deposits and withdrawals. Now customers can do much more through the bank, such as buying airtime to buying shares and airline tickets. The more the services a customer can access through their account, the more value they perceive to be offered by the account at this bank.

Most of the accounts are now offered as ‘packages’ with primary features and benefits that the customers will not need to pay for. Customers will typically compare the features of one bank’s gold package to another bank’s similarly branded or priced package. It is interesting to note that sometimes customers are swayed by the feature that they do not use or that they would only use for as little as one a year. Customers do not like to be told that they cannot do something from their account or that they need to pay extra to do a certain transaction. Instead, they would rather have it available it case they need it, for example, AA bundled with Petrocard or credit card with travel insurance included.

5.3.1.6 Cost of banking

The total cost includes monthly banks charges, transaction charges, interest charges and any other ad hoc fees. Customers want to keep these costs low however many customers do not view these costs in isolation. This cost need to

be a true reflection of the value received from the other drivers. Customers would therefore pay higher fees if they feel that they are receiving the good value for their money.

There is a perception amongst many customers that the pricing structures of most of the banks are so complex that it is difficult to compare the banking packages offered by other banks. If the pricing structures were comparable to the extent that it is easy to identify the cheapest bank for the preferred package, customers would certainly choose that bank.

5.3.1.7 Provides all the services I need from a bank

Customers want the bank to be a one-stop-shop providing solutions that addressed all their financial service needs. However, this driver was found to be one of the least important drivers of value. Most customers are still happy to shop around for the best deal for each of the banking services they required. Customers are prepared to hold multiple banking relationships if the best deal is from the bank they are not currently banking with. This tendency to have multiple banking relationships has also been increased by the presence of intermediaries who do the shopping around on behalf of the customers. Most customers for example rely on the bond originator or the car dealer to approach all the major banks for quotes on their home loan and car loan respectively. The best deal does not always come from the bank that the customer is currently banking with.

5.3.1.8 Interest earned on positive balances

Transactional banking accounts which gives ‘on demand’ access to funds pay very little of no interest. The bank usually provides the customers with a secondary savings or investment account that offers higher interest at the expense of limited or no ‘on demand’ access. Customers who have funds that

that be committed to savings and investment accounts consider this to be important. These customers are in the minority in South Africa; hence this is the lowest ranked sub-driver of value.

5.3.1.9 Overall Value Equity

Value Equity has been ranked as the most important driver of value above 'Relationship and Brand'. The four highest ranked drivers are all part of Value Equity is typically the most important driver in FMCG purchases while banks are mainly influence by Brand Equity (Rust et al 2004). There are a number of reasons why South African retail banking customers put value before brand when purchasing banking services.

- The South African Reserve Bank's four pillar policy and other restrictive policies have ensured the systemic and prudent stability of South Africa's banking sector. The recent financial crisis that lead to bank failures in the United States, Europe and other developed economies had very little effect on South Africa. The fact that no South African bank failed or even experienced notable value reduction was evidence of this stability. Customers therefore has some assurance of the brand value, they are more concerned about other drivers of value.
- The cost of retail banking is high; South African banks have some of the highest bank charges and most complicated banking fees structures (Jali et al 2008). It is therefore reasonable for customers to have high expectations on value for your money if the service is considered to be expensive.
- Intermediaries like bond originators and car dealers have a huge influence on the choice of bank to be used by the customer. These intermediaries put emphasis on value for money; hence customers are also inclined to consider Value Equity as the most important aspect.

In assessing the Value Equity that the bank delivers it is interesting to note that even though service quality definitely drives acquisition, poor service does not always result in defection. Literature shows that the correlation between dissatisfaction and defection is not always strong. While there is a fair amount of inertia with some dissatisfied customers, there are satisfied customers who might switch banks when their personal circumstances change or when they perceive that another bank can provide higher value (Baumann, Elliot & Harmin 2010).

5.3.2 Drivers of Brand Equity

Brand Equity is the customer's subjective and intangible assessment of the brand, greater than its perceived value. Brand value is influenced by, among other things, awareness and attitude towards the brand. Customers consider the following factors to be the sub-drivers of Brand Equity.

5.3.2.1 Consistency

Customers expect a similar experience and efficiency across all touch points and departments. Banks have introduced a number of channels and options available to the customers. Customers expect the bank to maintain consistency across these channels. When a customer is transfer from one department to another, he/she does not want to feel like they are now dealing with a different bank; neither do they want to restate their story all over again.

5.3.2.2 Aesthetics and appearance

The look and feel from the aesthetics and the day to day cleanliness and maintenance bank's outlets help define the bank's image to the customers. According to Parasuraman et al (2000), where the core product is intangible customers derive more satisfaction if the tangibility gap is bridged and there is

some physical evidence of the service. The appearance and cleanliness that customers face is normally what gives customers their first impression of the tangibles. It is therefore important to ensure that the aesthetic and appearance of the bank's outlets which gives a good impression of the service quality delivered.

5.3.2.3 Innovation

Innovation delivers two main perceived benefits to the customer. First it gives the impression that that bank is moving with the times, which in turn means that the bank will always be able to find innovative way to solve any issues that might arise. Secondly, innovation is expected to directly address the customer's needs and make a good banking experience better and deliver more value in the process. Innovation for the sake of innovation does not appeal to customers.

5.3.2.4 Brand image and brand reputation

Each of the banks has a certain image and reputation in the customers' mind based on perceptions built up over time. A good (strong) image and reputation takes time to build. The bank's performance on all the sub-drivers that customers consider helps to enhance the brand image over time; however, a badly handled public interest issue can negatively affect the bank's image; this applies even if the bank's image was not built on that issue. For example, when ABSA questioned the racial composition of the players in the South African Currie Cup Rugby teams; trade union solidarity started a campaign against ABSA and asked its members to move their accounts. The trade union was of the opinion that the bank was using its financial muscle to influence sport. Standard Bank's image was also affected by the retrenchments during the last quarter of 2010. Some focus group respondents mentioned that even though

Standard Bank staff had empathy in dealing with customers, the bank did not have empathy in dealing with staff.

Customers often cannot point to one specific thing that primarily gives a good reputation, suffice to say a good reputation is important and they would not remain with the bank that does not have the acceptable reputation. The image has to be in line with who they are or who they want to be; the bank's image should not be distinctly opposite of what the customers view themselves to be. The most frequent example from the focus groups was that of Capitec Bank. This bank has some of the best value for money transactional products, but has the image of a 'loan bank for the poor.' Most middle market and prestige customers felt this image did not resonate with them.

5.3.2.5 Bank's involvement in community and social activities

This is the third least important sub-driver of both Brand Equity and overall Equity to customers. Even though customers are becoming more and more concerned about the Corporate Citizenship that their service provides, they do not view good corporate citizenship as a contributor of value but rather as the bank's license to operate in the community. Thus, the bank's involvement in sponsorships and community activities do very little in attracting customers to the bank, it just makes customers feel that the bank is a part of the community.

Most of the visible sponsorship is going soccer, cricket and rugby. From the recent World Cup performances, customers felt that these codes are over-sponsored and the banks would be better off giving back this value to the customers in the form of lower fees. This view is exacerbated by the fact that soccer and cricket have been rocked by scandals recently and that rugby is still struggling to position itself as a sport for all South Africans.

5.3.2.6 Bank advertisements and promotions

This is the second least important driver of value from the customer's perception. Advertisements and promotions are important in creating and maintaining customer awareness of the bank, however, customers in South Africa are of the opinion that bank adverts cannot be taken on face value. It is not uncommon for bank tellers to be completely unaware of the availability of a service that the bank is advertising. 'Terms and conditions' often mean that the customer cannot access a service as advertised or they have to pay high fees for it. For this reason, customers only believe in the availability of a service after they have accessed it on reasonable 'terms and conditions.'

5.3.2.7 Recommendations by friends and family

This is the least important sub-driver of value to customers. This is not because customers do not trust their friends and family, but inconsistency of service in South African Banks often means that the wow customer experience is frequently not repeated from customer to customer. Terms and conditions, as well as segmentation, also mean that customers are frequently not able to access the services that their friends are recommending.

Chagaba and Fatoki (2011) found that most students would bank with the bank used by their parents or recommended by their parents. It is reasonable for students to pick their parent's banks because is easier for the parents transfer money within the same bank than from one bank to another bank. In cases where terms and conditions are prohibitive for the student, the parent often stands as surety, thus it is in the best interests of the student to use the bank recommended by the parent or the family member who controls the purse strings. Students will choose the bank that makes it easy for them to receive funds, even if it means choosing their bursary sponsor or the university's bank (Chagaba & Fatoki, 2011).

A negative recommendation will discourage potential customers from choosing a specific bank; however customers do not necessarily go with the bank that has the highest praise from family and friends. Non-student customers choose their own bank based on their own assessment of value.

5.3.2.8 Overall Brand Equity

Brand Equity is normally the most important driver of value for banking services (Rust et al 2004). However, this study showed that Value Equity is the main driver of value for retail banking service in South Africa. The reasons for why Value Equity is expected to be more important that Brand Equity in South Africa is indicated in Section 0.

The fact that Brand Equity is ranked below value and relationship equity does not in any way imply that Brand Equity is not important to the customers; it implies that the stability of the four big banks is so well established that customer customers are assured of a given level of Brand Value across all four of the big banks and they would need to consider other factors in defining the value they need to receive from their bank. Once there is reason to doubt this stability, customers are likely to review the brand image of the bank before they look at other drivers of value. If customers are to choose any of the banks outside the big four, Brand Equity then becomes one of the critical factors. Ardic and Yuzereroglu (2009) came to the same conclusion, that even though small private and niche banks often attract individuals by offering high interest rates and low fees, a lot of customers tend to avoid them based on trust and brand image. In South Africa, for example, Capitec Bank has used this approach to attract customers, however, its success in attracting the middle market and above has been limited because these customers view Capitec as the bank of the poor or the unsophisticated.

Vogel et al (2008) emphasise that, even though generalisations can be made on how the importance of each equity drivers depends on the industry,

managers should uncover the level of influence of the various sub-drivers and link them to expected future sales. It is important to acknowledge that certain markets might not conform to the norm in terms of how costumers perceive the value they receive.

5.4 Retention (Relationship) Equity

This is the tendency of the customer to stay with the brand, which is greater than the customer's objective and subjective assessment. This is influenced by factors such as knowledge building programmes, loyalty programmes and affinity programmes. The sub-drivers of Retention Equity in order of importance are:

5.4.1 Friendly service environment

Customers want to be serviced in a comfortable and inviting service environment where they get the sense that they are treated with empathy and understanding. The attitude, courtesy, empathy, behaviour, knowledge and skill of the frontline staff define the service environment that the customers enjoy. This service environment is the primary driver of service quality (Narteh & Owusu-Frimpong 2011). Customers consider all the above factors together in rating the service quality of the bank and they expect the bank to perform above a certain level on all these dimensions. Customers who derive satisfaction from the service quality are likely to remain loyal to their retail bank than other customers (Armstrong & Seng 2000).

Electronic channels means that most transactions are now done without assistance from bank staff or, in cases where such assistance is still required, the amount of time spends in front of bank staff is now reduced. Banks now have to find ways of creating a friendly service environment in the self-service world. This ranges from greeting customers by name to allowing customers to

personalise their internet banking page so that they have their favourite transactions more accessible. Even though electronic banking has reduced the reliance of customers on 'face-to-face banking, customers still expect high service quality (Devlin & Gerrard, 2004). It is therefore imperative for banks to continue finding innovative ways to maintain high service levels through self-service channels.

5.4.2 Proactive communication about changes on my account

Customers are frustrated if there are changes to their account that either increases the cost or reduce their benefits but they are not informed before they changes are implemented. There is a feeling that the banking relationship that exists between them and the bank has been betrayed when the bank makes changes without communicating with the customers. Customers also expect to be informed about new products so that they can excise the option of taking these products based on their existing banking relationship.

5.4.3 Bank understands my personal financial needs and gives me personalised services.

Customers want to be treated as individuals with individual financial needs. Relationship equity is destroyed when customers feel that they are just a number and the bank does not have the time to understand their individual financial needs and when these needs deviate from the standard requirements. A good personal relationship is one of the main determinants of service quality in the service industry.

Customers who feel that they have a satisfactory long term relationship where their bank understands and treat them as individuals are the least price sensitive compared to other customers. Banks should therefore strive to

develop long-term personal relationships with existing clients (Abratt & Russell 1999). Loyal customers have lower marketing requirements and are generally more profitable than newer customers (Reichheld & Sasser, 1990). Long-term customers actual enhance the bank's marketing efforts because they recommend the bank to friends and colleagues.

The level of personalised service expected increases as the net worth of the individual increases. Therefore, even though customers expect to have more personalised services most of the prestige and middle market customers would rather have lower fees than pay the high fees with the packages that offer personalised services.

5.4.4 Loyalty rewards

Loyalty rewards is the least important sub-driver of Retention Equity. Customers want to be recognised for their contribution to the bank, this can be based on the length of the banking relationship or the value of the banking relationship. The recognition must deliver real value to the customer, whether it is part of a formal loyalty programme or it is an *ad hoc* discount or a free-bee. Most retail banking products make participation in rewards programmes optional, and charge an additional admin fee for this participation. However, most customers are of the opinion that these rewards have little real value since the amount of transactions required to build enough points is often very high. Retail banks often make very low margins per customer and are therefore left with very little to give away in terms of loyalty. Therefore, customers do not expect much in the way of loyalty rewards neither do they consider them important.

5.4.5 Overall Retention Equity

Marketing emphasis in the service environment should shift from transactions to relationships and marketers should focus more building long term profitable

customer relationships (Rust et al 2000). Resource investment in retail banking is still strongly biased toward support activities rather that relationship marketing activities (Carson, Gilmore & Walsh 2004). This is in contrast to business banking customers and other high net worth customers. Bick (2007) found out Relationship Equity is the most important driver of value for SME customers. These customers derive more value from personal relationships and from personalised offerings. Banks are prepared to make the investment in relationship marketing of these customers since they receive a good return for this effort and investment.

Retention Equity is typically important for organisations that sell a variety of products and services to the same customer (Lemon et al 2001). Retail banks increase the share of wallet by cross-selling other products to customers who already have transactional banking accounts. It should be noted that some of these products are only introduced to customers through dealers and other agents like brokers and bond originators. It is therefore the Relationship Equity of these intermediaries that become important rather than the relationship equity of the underwriting bank. The intermediary is taken to be the provider of the service rather than the underwriting bank.

5.4.6 Customer Experience

Initially the drivers of value were grouped according to the three drives identified by Rust et al (2000), which are Value, Brand and Retention Equity. Principal Component Analysis results show that customers have a fourth driver of value which is named: 'Customer Experience' in this research. This driver is made up of sub-drivers of Brand and Value Equity that enhance the customer's experience in receiving the banking service.

Banks have realised that customers place a lot of value on customer experience and are now beginning to make it part of the things that they strive to do well.

Each of the big four banks now have User Experience teams and now invest a lot of resources in ensuring that all services deliver a rich customer experience.

5.5 Performance of Banks

A firm operating in a competitive environment must strive to effectively meet the needs of an attractive group of customers better than its competitors. The firm must define its core competences and strive to do better than its competitors on these competences. On the rest of the attributes, the firm must just perform at a level that ensures that these attributes do not create a source of value reduction to the customer. Competitive advantage is gained when the firm creates a service offering which promises and delivers excellence in the attributes that customers prioritise (Frei, 2008). The performance of each of the banks will now be analysed in light of the competitive position that it places them.

5.6 Performance on Value Equity

5.6.1 Standard Bank: Value Equity

Standard Bank's best performance is in Reliability. This is the sub-driver on which the bank performs better than on any other sub-driver and is therefore its primary source of its competitive advantage. Standard Bank outperforms the other three banks on Reliability and on four other sub-drivers: 'Safety and Security', 'Efficiency', 'Comprehensive Services' and 'Interest on positive balances'.

Customers ranked Reliability as the most important sub-driver overall. This is the sub-driver that Standard Bank performs best. Performing well on the most important sub-driver of Customer Equity puts the bank is a very strong competitive position. The bank is doing well in what matters and customers are acknowledging it.

It is interesting to note that even though Standard Bank outperforms the other three banks on 'Interest earned on positive balances'; its performance on this sub-driver is very low. Customers generally feel that retail banking accounts attract too little interest and they do not expect to earn high interest on transactions account. The bank cannot create much equity and competitive advantage from this sub-driver even though it is performing better than the other banks.

On the three drivers where Standard Bank is second best to another bank (Accessibility, Account Features and Cost of Banking) the difference is marginal. Thus Standard Bank has distinguished itself on a number of drivers but has still remained competitive on the drivers that it is not leading on. Standard Bank's service promise is 'delivering real value banking,' and this survey show that customers believe that the bank is actually delivering real value better than its competitors.

5.6.2 FNB: Value Equity

FNB outperforms all of the other banks in delivering best Account Features and benefits. In line with competitive priorities literature, the bank has positioned itself to deliver the best account feature and benefits and customers acknowledge that it is the best in class in doing so. It should be noted however that this feature on which the bank distinguish itself is ranked 11th out of 19 on the customer priority list.

FNB is also rated as the cheapest bank among the four banks. This is the 8th most important sub-driver of value to the customer and will therefore deliver more perceived value to the customer than the driver on which FNB distinguished itself. FNB can therefore increase its competitive advantage by improving its pricing and cutting on some of the account features that are not important to customers. In doing so, the bank will enhance the value of what customer consider important while sacrificing what is not important.

5.6.3 ABSA: Value Equity

ABSA has distinguished itself as the most convenient and accessible bank across the Big four Banks. ABSA has positioned itself as the bank that allows customers to do everything *kweeka* (quicker), with its extensive ATM and branch network as well as a number of self service banking options (Biz Community 2011b). These results show that ABSA has positioned itself well on its competitive advantage and customers are clear on what to expect from it.

ABSA was formed from a merger of a number of banks and building societies to form the Amalgamated Banks of South Africa (ABSA) (S.A. Information, 2011). Each of these entities had a network of customers channels targeted at either a specific market or a general market. When these banks merged, ABSA found itself in a position where it had an unprecedented reach which could be the source of competitive advantage. It is therefore not unreasonable for ABSA position its service offering in terms of its convenience and accessibility since it can do this better than any of the other banks in South Africa.

5.6.4 Nedbank: Value Equity

Nedbank's best performance is in Reliability of its banking system. This is the driver on which it performs better than any other driver. Nedbank has however not managed to create any competitive advantage from this driver. All the other three banks are doing very well on reliability which puts Nedbank in an unfortunate position of being the worst of a good group. The bank has to do much better to create a competitive advantage or rather choose a different driver on which to create a distinctive competitive advantage.

Currently Nedbank's value proposition is not clear on the value it seeks to deliver to customers. The bank has positioned itself as a bank that delivers Green solutions. While this appeals to environmentalists, it does not seem to be linked to the banking needs of retail banking customers. Nedbank should

reposition its service in line with customer priorities, if it is to gain competitive advantage.

5.7 Performance on Brand Equity

5.7.1 Standard Bank: Brand Equity

Standard Bank's best performance is in 'Brand Image and Reputation', 'Aesthetics and Appearance' as well as consistency. Over its history, Standard Bank has invested a lot of resource positioning itself as a strong and trusted brand that offers the same reliability across all its business. This has led to the repositioning of its entire primary business portfolio under the Standard Bank brand. The likes of Stannic, SCMB, Standard Homeloans and Standard Private Clients have all been repositioned under one Standard Bank which offers a consistent brand promise.

5.7.2 FNB: Brand Equity

FNB outperforms all the other banks on 'Bank Advertisements and Promotions' and 'Innovation' and this make it the most recommended bank because 'even customers who do not bank with then know what they offer' as one of the focus group respondents put it. There was consensus in all focus groups that FNB through its advertising has managed to build up Brand awareness. This was confirmed by the results of the quantitative study.

Even though recommendations from friends and family is the least important driver of brand value for the customers who are already banked, this is very important to customers who are still shopping for the bank to open their first account with or for customers who want to switch. Customers who recommend their bank to friends and family are an asset to the bank, not only because they are the least likely to switch but also because they enhance the bank's

marketing efforts though this ‘word–of-mouth’ marketing (Abratt & Russell, 1999).

FNB is the worst performing bank on ’Community involvement’. The bank acknowledges that and does not seek to outperform any of the competitors on this driver. FNB’s focus is on creating awareness that will directly contribute to share of wallet not just creating presence for the sake of presence. The bank has chosen to sponsor varsity rugby as a way of getting access to students and open student accounts. These university students have a high earning potential, and FNB with its high retentions capability will be able to keep these customers until their revenue contribution to the bank is substantial. Therefore even though varsity rugby does not receive as much promotion as Currie Cup rugby, FNB believes that it still delivers a better return on market investment.

5.7.3 ABSA: Brand Equity

ABSA’s highest rating is on its involvement in ’Community activities’. Currently, ABSA sponsors the local soccer and rugby leagues and the national teams of the two most watched sporting codes in South Africa. However, customers do not place much value in this involvement in sport and would rather have this value directly given to them in form of lower fees or more services.

5.7.4 Nedbank: Brand

Once again Nedbank does not outperform the other Banks on any of the drivers. Nedbank received its highest ranking on community and social involvement, but even there it is overshadowed by ABSA and Standard Bank. Nedbank sponsors the Nedbank Cup, which is one of the lowest prize cups in the ABSA premier league. This cup is often dominated by teams who, until recently, were sponsored by Standard Bank and the majority of the games are

played at the FNB stadium. The clutter of the other banks make difficult for Nedbank to actually stand out as the main bank behind the tournament.

Nedbank has maintained a strong hold on the Africa's Major golf tournament at Sun City, the Nedbank Challenge for the past thirty years. This gives that bank a lot of brand awareness and presence, however much of this awareness goes to the private, business and corporate customers. These customers were not included in this study.

5.8 Performance on Relationship Equity

FNB clearly stands out in all aspects of Retention Equity. The bank has the best 'Loyalty Rewards,' understands the personal financial needs of its customers and proactively communicates to customers. It is marginally outperformed by Standard Bank on the friendliness of its service environment but it still ranks way better than ABSA and Nedbank.

FNB has leveraged its innovation capabilities to build a strong retention capacity. The in-Contact messaging tool, which is currently the best in its class, has helped FNB keep in touch with its customers. FNB was also the first South African Bank to offer a free banking app that is not only used for transactions but is also used by the bank to communicate to customers. Having realised that internet penetration in South Africa is low, FNB went on introduce a rewards programme that gives customers access to smart phones (Galaxy and iPhone) and tablets. That way, the bank ensured that the target market had access to the app.

Standard Bank marginally outperforms FNB on the friendly service but comes second on all the other aspects. Given that Standard Bank's strongest point is on value, it makes since to make sure that the service environment is friendly and inviting. This completes its service offering on which it boasts competitive advantage. ABSA and Nedbank have performed poorly on all the aspects.

5.9 Overall performance

5.9.1 Main drivers

After analysing the performance on individual sub-drivers, the overall performance on main drivers was assessed. Standard Bank's brand strength was clearly distinctive. Standard Bank is currently the most trusted company in South Africa (Rudd, 2011) and is currently leveraging its brand strength by consolidating all its businesses under one brand to enhance Customer Equity. Standard Bank also delivered the best value to the customers compared to the other three banks. Standard bank's superior performance on Brand Equity and Value Equity can be attributed to the factor that Standard Bank's best performances is on factors that customers consider important.

FNB delivers the best Retention Equity to customers. FNB's performance across all the retention sub-drivers was good. The bank has leveraged on its innovation capabilities to enhance its Retention Equity. Currently FNB is running a campaign which leverages on its strong retentions capabilities while clearly pointing out that the retentions offices of its competitor are no match to FNB.

ABSA and Nedbank do not stand out on any of these main drivers.

5.9.2 The Banks' Overall rating

Customers were required to answer a separate question where they rated the overall performance of the bank without considering the sub-driver or the main drivers. Standard Bank is ranked the Bank that provides the highest Customer Equity. On a scale of 1 to 10 Standard Bank is ranked 7.06 followed closely by FNB at 6.88 then ABSA at 6.06 and lastly Nedbank at 5.82. This is in line with the results of the ranking on the sub-drivers where Standard Bank is the best performing on most of the sub-drivers followed by FNB. Nedbank which does

have a single driver on which it out performs the other banks is rated as the worst performing bank.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter presents the main conclusions and recommendations of this research. The main findings of the research are summarised in response to each of the research questions. This is followed by recommendations to management of retail banking in general and of the four banks in particular. The chapter is concluded by presenting the limitations of this research and making suggestions for further research.

6.2 Summary of main findings

6.2.1 Research question 1

What are the drivers and sub-drivers of Customer Equity in Retail Banking in South Africa?

Research Question 1 was answered using a combination of literature review and data from the focus groups. The main drivers of Customer Equity from Rust et al (2000) which are Value Equity, Brand Equity and Retention Equity, are applied to come up with 19 sub-drivers as listed Table 14 below. Some of the sub-drivers can be grouped into a new driver named here as Customer Experience. These are sub-drivers of Value, Brand and Relationship that combines to define the customer's banking experience. These sub-drivers are: Consistency, Efficiency, Innovation and the bank's ability to provide all the services that the customer needs from a bank.

6.2.2 Research question 2

What is the relative importance of each of the sub-drivers of Customer Equity?

Table 14 below shows all the sub-drivers of Customer Equity in order of their importance.

Table 14: Summary of sub-drivers and their ranking

	Sub-driver	**Driver as per PCI Analysis**	**Focus Group classification**
1	Reliability of the banking systems	Relationship	*Value*
2	Safety and security		*Value*
3	Efficiency (Speed and accuracy)	Customer Experience	*Value*
4	Accessibility and convenience	Value	*Value*
5	Provides all the services I need	Customer Experience	*Value*
6	Friendly service environment	Relationship	*Relationship*
7	Consistency	Customer Experience	*Brand*
8	Bank charges and interest	Value	*Value*
9	Proactive communication	Value	*Relationship*
10	Innovation	Brand /Customer Experience	*Brand*
11	Account features and benefits	Relationship	*Value*
12	Personalised services.	Relationship /Brand / Value	*Relationship*

13	Interest earned on positive balances	Interest	*Value*
14	Brand image and reputation	Brand	*Brand*
15	Aesthetics and appearance	Brand /Value	*Brand*
16	Corporate social involvement	Brand	*Brand*
17	Loyalty rewards	Value	*Relationship*
18	Advertisements and promotions	Brand	*Brand*
19	Recommendations by friends and family	Brand	*Brand*

The ranking of the main drivers shows that retail banking customers in South Africa consider Value Equity as the most important driver followed by Relationship Equity and Brand Equity. The top five sub-drivers are all drivers of Value Equity while five of the bottom six drives are drivers of Brand Equity.

6.2.3 Research Question 3

What is the performance of the major banks (Standard Bank, ABSA, FNB and Nedbank) on each of the drivers relative to other retail banks?

Table 15: Overall bank performing

	Standard Bank	**ABSA**	**NedBank**	**FNB**
Overall performance	7.06	6.06	5.82	6.88

Standard Bank was ranked the Bank that provides the highest Customer Equity. On a scale of 1 to 10 Standard Bank is ranked 7.06 followed closely by FNB at 6.88 then ABSA at 6.06 and lastly Nedbank at 5.82. This is in line with the results of the ranking on the sub-drivers where Standard Bank is the best performing on most of the sub-drivers followed by FNB. Nedbank which does

not have a single driver on which it outperforms the other banks is rated as the worst performing bank.

6.3 Recommendations

The value of Customer Equity changes in line with the customer needs and preferences at each stage of the relationship. In order to maximise customer life time value, the banks needs to understand the relative importance of each of the drivers of customer life time value and focus on improving these drivers (Kumar and George 2007). The relative importance of each of the value drivers should determine the amount of focus put towards delivering that value (Rust, Zeithaml, and Lemon 2000). Therefore, South African retail banks should focus on the following:

- **Reliable and convenient access to banking service**

Retail banking customers place a strong emphasis on Value Equity over Brand and Retention. Value Equity recognized as a source of competitive advantage since it translates to the total economic value enjoyed by the customer (Parasuraman, 1997 and Rust et al 2001a). Banks should focus on the sub-drivers that customers consider important. Reliability, efficiency and safety and security rank among the most important drivers. Retail banks should therefore focus on ensuring that customers have convenient, reliable access to banking service in a secure environment. Whatever the bank's value proposition is, it will be difficult, if not impossible to deliver on this when banking services cannot be accessed.

The most notable of the sub-drivers is Reliability. To ensure that banking services are available on demand, banks have to invest in reliable systems with robust back up and disaster recovery options. Advances in Information Technology have led to the availability of business continuity systems that allows for the running of one system on a number of platforms simultaneously in order to provide back-up. This reduces the failure rate of systems by ensuring that if one platform fails, there are still a number of platforms available for the system to run on. The strength of the backup is increased if the platforms are

operated from different environments that are unlikely to be affected by the same problem. For example, the platforms do not need to share that same electricity or communication grid.

- **Promotion of service banking to increase access.**

Self-Service banking channels that include internet banking, ATMs and mobile banking are key to improving customer convenience. Self-service increases convenience for customers while improving efficiency for the bank. The absence of human interaction means that the personnel and the cost of servicing customers is much less. Self-service banking increase consistency and reduces the error rate to levels that are difficult to achieve when using staff.

Self-service banking means customers can do their banking at their convenience and are not restricted to banking hours and branch locations. The adoption of self-service banking is driven by the customer perceptions of reliability, security and. Banks should invest in making these channels reliable, secure and user-friendly in order to drive adoption and usage. Communication and education should focus on creating the right perception in the customer's mind. Customers who do not have the right perception of reliability, security and user-friendliness would still not use these irrespective of how reliable, secure and user friendly the channel really is.

FNB has gone a step further in promoting the use of self-service banking. The bank started a programme that helped customers acquired smart phones and tablets with the FNB banking app preloaded. This was after realising that the low internet penetration in South Africa was actually hampering the adoption of self-service banking since customers did not have the electronic device required. FNB gives customers the impression that it is giving electronic devices for free by building the cost into the customer's banking fees. All the South African Bank now provides comprehensive banking service on internet banking

and on smart phones, now they should take it a step further, like FNB, and find innovative solutions to improve access and drive adoption.

Banks must also strengthen their collaboration with their parties in increase access to banking service. Currently all South African banks provide cash withdrawals at some tills, however, there is an opportunity to increase the services available through the till points since most of them already have a link to the bank. This will increase the number of access points without the infrastructure investment required for a bank branch.

- **Community involvement should be directly linked to customer acquisition.**

This research has shown that Customers do not consider corporate social investment as an important driver of value. Banks should therefore ensure that community involvement is directly linked to account acquisition not just brand presence and corporate citizenship and social responsibility programs. For example some focus group participants indicated that they would be attracted to a bank that sets up a table on a street corner with bank staff teaching the community about banking and personal finance than to the bank that sponsors their community's sports event.

- **Banks should demonstrate the value of all the features the each account offers**

South African retail Banking customers are conscious and sensitive to the value offered by their bank. Banks should devote resources to customer education and ensure that customers are aware of all the services available to them. Every time the bank introduces a new feature to the account, customers should be made aware of this feature. Additional features increase the value of an account, and customers feel that they will be receiving more value for their bank charges.

FNB ran a campaign from the last quarter of 2011 in to the first half of 2012 which was focused on presenting all the account features and benefits offered by FNB. This campaign has been a source of customer education not only to FNB since most of these features are not unique to FNB. Such customer education has the advantage of increasing customer satisfaction.

- **Leverage on current strengths to create competitive advantage.**

The results have shown that FNB, Standard Bank and ABSA have all leveraged on one or more of their existing strengths to create a distinctive advantage. In creating competitive advantage, the bank does not always have to create a new capability, the starting point is to find an existing strength and create an offering with a value proposition based on the existing strength. The bank should then build incremental capabilities on those strengths to consolidate or to extend it advantage.

For example, ABSA was found to have a competitive advantage in Accessibility because of its extensive branch and ATM channel. The bank has recently embarked on an IT renewal programme to improve the reliability of the extensive ATM network. Now ABSA can start emphasising both Accessibility and Reliability as its distinctive advantage.

It is important to note that the value proposition offered and communicated by the bank should appeal to customers. Nedbank, for example, has built a value proposition around Green solutions. The bank has presented itself as a green bank that offers green banking solution to Africa. Most of its buildings are environmentally friendly in conserving water and electricity. Notwithstanding the increased emphasis on environmental friendliness, banking customers do not see this as adding value to their banking relationship. Nedbank has to find a driver of value that customers consider important and built a value proposition around it, otherwise the bank will not stand out to retail banking customers.

- **Increase partnership with intermediaries in acquiring new customers.**

South African Banking customers are value conscious and have rely on brokers to help them compare and choose the best deal in for their banking solutions. Banks should tap into this reliance on brokers by building better relationship with broker. The current practise is just to provide quotations to brokers without much effort in differentiating the offering and making it more favourable than other offerings. There is still room for one bank to make an offer to beat the best quotation on the table. This does not always mean giving away margin; it might just mean providing an additional feature that customers consider important, then finding an innovative way to build it into the price.

If the pricing structure becomes less complex and customers can easily compare, a premium can be charged for sub-drivers that customers consider most important. The bank should demonstrate that they provide superior value on these features to justify the premium. The bank can also make some premium feature available and charge for them. Even if the customers are unlikely to use the extra features, the bank can still get revenue from making these features available.

6.4 Suggestions for further research

This study provides insights into the current South African retail banking industry to make a contribution to the body of knowledge on Customer Equity. The research also provides recommendations for further research based on what was not covered in this research or other issues that arise based on the ever-changing dynamics of the South African Banking industry. The following has been identified for further research:

- Use other markets and other markets and other segments. This research is limited to the South African retail banking industry and excludes

inclusive banking and private banking. Similar research can also be done for market segments that were excluded that are private banking customers and inclusive banking customers.

- Similar research can also be done over time in the same market to test how and which drivers change over time.
- The sample used to conduct both the qualitative and the quantitative research was small. The same research can be conducted using a larger research sample to improve the reliability of the results.
- Only the customers of the big four banks were used for this research. There is an opportunity to include customers of other banks. These customers can provide valuable insights into why niche banks can be attractive to customers.
- This research focused on the respondents opinions, based on the assumption that respondents were telling the truth. Further research can compare this information to actual account activity including reason for choosing initial bank and reasons for switching banks to validate the perceptions of the customers captured in this research.
- There is an opportunity for further research using customer numbers that are proportional to the market share of each of the surveyed banks. The sample in this research was not representative of the market share of each bank.

6.5 Concluding remarks

Customer Equity comprises of Value Equity, Brand Equity and Retention Equity. This study has determined that there several sub-drivers for each key drivers of Customer Equity in the South African Retail Banking industry.

The most important sub-driver is Reliability of banking systems followed by Safety and Efficiency, which are all sub-drivers of Value. Value Equity is the most important driver of Customers Equity. Brand Equity, which is traditionally the dominant driver in the banking industry, is not an important driver in this instance.

This research shows that the best way for South African banking to build Customer Equity is to deliver a value proposition that demonstrates value to customers. Customers will be willing to pay a premium for value, and this can help the bank increase its margins.

Standard Bank is currently the best performing bank mainly because of the reliability, security and efficiency. This will only remain a competitive advantage to the extent that other banks are lagging behind on these sub-drivers. If Standard Bank is to remain on top it must continually perform better that other bank on the drivers that customers consider most important.

Nedbank, on the other hand, had needs to define a value proposition which appeals to customers' banking needs. It should also be a value proposition on which it can outperform other banks or at least compete with the best in class.

Understanding the drivers and sub-drivers of Customer Equity is important if banks are to create value for customers and stand out in a competitive environment. It is therefore important for banks to continually review customer perception on drivers of Customer Equity as well as measure their own performance against that of their competitors.

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APPENDIX A: FOCUS GROUP GUIDE

The purpose of this group discussion it to talk about banking and banking products. The objective is to understand what your customer needs are when it comes to day to day banking and how banks can satisfy these requirements. We are doing more than one group like this with people with other characteristics. At the end we will compile a report with suggestions on how consumers experience banks and what consumers want from their banks. This survey is being conducted for the purposes of an MBA research at Wits Business School and is not affiliated to a specific bank.

It is extremely important that you give us your own opinions around the issues introduced. There are no right or wrong answers and if you differ from anybody in the group, feel free to say so. I will also make sure that we get each person's opinion and that one does not dominate. Even though the session is recorded confidentiality will be respected.

Writing in bold is instructions to the focus group leader.

Handout the focus group answer sheets

1. <u>Introduction and warm up</u>

Name and other demographic information

Thinking of banks, which ones come to mind? **(They are likely to mention Standard Bank, ABSA, FNB, Nedbank)**

Who did not mention Capitec and African Bank? Why?

Which banks do you bank with? List all.

2. <u>Brand perceptions</u>

2.1. For each of these mentioned, what is the first thing you associate with them when their name is mentioned?

2.2. If not mentioned: Capitec? What associations do you have with them?

3. <u>Identifying the drivers</u>

3.1. **P**lease write down all the factors that you look for in your bank of choice? It can be anything that comes to mind. Write as many or few factors as you think are important.

3.2. Of the factors you have written what is the most important and why do you consider it to be the most important.

List all the most important from the group and rank them as a group, from most important to least important. Why did the group choose the most important factor?

3.3. How many people mentioned the following: If there is a factor that no one mentioned ask everyone to add it to their list for ranking

- Brand image (cool, prestigious, Integrity, appearance of branches etc)
- Points of representation and accessibility (ATMs, branches)
- Innovativeness
- Safety / security
- Knowledge staff and willingness to help
- Personal relationship
- Availability of information
- Ease of opening a bank account (most important)
- Financial stability of the bank,
- Provision of fast and efficient service
- Appropriate range of service offered
- Branch opening hours

- Family (Parents, spouse, siblings) uses the same bank
- Bank atmosphere and staff courtesy
- Proximity of nearest branch to home (work)
- Proximity of nearest ATM to home (work)
- Professionalism of bank staff
- Adequate number of tellers (queue length and waiting time to be served)
- Attractiveness (and look and feel) of bank buildings customers facing facilities
- On line banking (cellphone and internet)
- Bank charges transaction fees and service fees
- Interest earned
- Influential marketing

3.4. What does each of the following mean to you for a bank?

Value

Quality – Physical product and service delivery

Price

Convenience – location and accessibility (physical vs virtual/on line)

Brand – customer awareness, attitude toward brand, perception toward brand

Relationship with the bank

3.5. If we define quality in terms of the product offering and customer service in delivering the end to end service offering, rank the driver from most to least important:

Quality,

Price,

Convenience,

Brand

Relationship with the bank

4. <u>Ranking of Drivers</u>

4.1. If you we to sort all the factors you listed in question 3.1. into only two categories: **important** and **not** that important, which ones would you consider **important** and which one would you consider not **important**? Mark all the **important** factors with an **A** and **not important** factors with a **B**. Use the importance code column under question 3.1.

4.2. **Analyse importance under the following framework.** To what extent will each of the factors, if compromised, would make you close your account and move to another bank.

	Would never make me close my account	Could possibly make me close my account	Might make me close my account	Could definitely make me close my account	Would always make me close my account
Driver 1 sub-driver 1	1	2	3	4	5
Do this for all the drivers and sub-drivers					

APPENDIX B: FOCUS GROUP ANSWER SHEET

1. Introduction and Demographic information

Name					
Gender					
Race					
Age group	16- 24	25 – 34	35 -49	50 – 59	60 +

Thinking of banks, which ones come to mind? List all you can think of

.....

Which banks do you bank with? (List all).....

.....

2. Brand perceptions

2.1. For each of these mentioned, what is the first thing you associate with them when their name is mentioned?

Standard Bank.....

Nedbank.....
..

ABSA.....

FNB.....

2.2. Any other as agreed by the group .....

.....

3. <u>Identifying the drivers</u>

3.1. **P**lease write down all the factors that you consider your bank of choice? It can be anything that comes to mind. Write as many factors as you think are worth considering.

Factor (**for question 3.1**)	Importance code (**for question 4.1)**	Importance rating (**for question 4.2)**

3.2. Of the factors you have written which one is the most important and why do you consider it to be the most important .....

.....

3.3. Group activity

3.4. What does each of the following mean to you for a bank?

3.4.1. Quality .....

.....

3.4.2. Price (cost) .....

.....

3.4.3. Convenience.....

.....

3.4.4. Brand .....

.....

3.4.5. Relationship with the bank .....

.....

4. Ranking of Drivers

4.1. If you we to sort all the factors you listed in question 3.1. into only two categories: **important** and **not** that important, which ones would you consider **important** and which ones would you consider not **important**? Mark all the **important** factors with an **A** and **not important** factors with a **B**. Use the importance code column under question 3.1.

4.2. To what extent will each of the factors you listed under 3.1, if compromised, would make you close your account and move to another bank.

Would never make me close my account	Could possibly make me close my account	Might make me close my account	Could definitely make me close my account	Would always make me close my account
1	2	3	4	5
Use the importance rating column under 3.1 to assign a ranking to each of the factors				

APPENDIX C: SURVEY QUESTIONNAIRE

Introduction

My name is Mind Mabhunu and I am conducting research on customers' banking needs. This survey is being conducted for the purposes of an MBA research for WITS Business School and is not affiliated to a specific bank. It is extremely important that you give me your true opinions around the issues asked. All responses will be treated as anonymous. The interview will not be longer than 10-12 minutes and all the information you provide to me will be treated confidentially.

Q1. Which category below includes your age?

☉ < 20 ☐ 20-29 ☐ 30-39 ☐ 40-49 ☐ 50-59 ☐ 60 or older

Q2. Sex

☐ Male ☐ Female

Q3. Gross Monthly income

☐ less than 8000 ☐ 8 001 - 15 000 ☐ 15 001 - 25 000 ☐ 25 001 - 40 000
☐ Above 40 000

Q4. Race group

☐ African ☐ White ☐ Asian ☐ Coloured

Q5. What banking products (accounts) do you have? List all

Q6. Which of these banks do you bank with (tick all that apply)

☐ ABSA ☐ Standard Bank ☐ FNB ☐ Nedbank

Q7. Below is a list of factors you may consider important about your bank. Please rate the importance of each of these factors on a scale of 1 (not important) to 5 (critical)

Factor	Not important	To be considered	Important	Very important	Critical
1. Friendly service environment	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
2. Safety and security	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
3. Accessibility of banking services (branches, ATMs and consultants)	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
4. Account features and benefits	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
5. Loyalty rewards	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
6. Bank charges and interest on loans and overdrafts	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
7. Interest earned on positive balances	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
8. Bank understanding my personal financial needs and gives me personalised services.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5

9. Aesthetics and appearance (Look and feel and neatness)	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
10. Bank advertisements and promotions	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
11. Proactive communication about changes on my account	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
12. Brand image and Brand reputation	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
13. Reliability of the banking systems	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
14. Efficiency (Speed and accuracy in completing queries and requests	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
15. Provides all the services I need from a bank (one stop shop)	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
16. Innovation	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
17. Bank's involvement in community and social activities	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
18. Recommendations by friends and family	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
19. Consistency (similar experience and efficiency across all touch points)	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5

Q8. Rate the performance of the banks that you have experience with on each of the factors below on a ten point scale 1 (very poor performance) to 10 (exceptional performance)

Factors	ABSA	Nedbank	Standard Bank	FNB
1. Friendly service environment				
2. Safety and security				
3. Accessibility of banking services (branches, ATMs and consultants)				
4. Account features and benefits				
5. Loyalty rewards				
6. Bank charges and interest on loans and overdrafts				
7. Interest earned on positive balances				
8. Bank understands my personal financial needs and gives me personalised services.				
9. Aesthetics and appearance (Look and feel and neatness)				
10. Bank advertisements and promotions				

11. Proactive communication about changes on my account				
12. Brand image and Brand reputation				
13. Reliability of the banking systems				
14. Efficiency (Speed and accuracy in completing queries and requests				
15. Provides all the services I need from a bank (one stop shop)				
16. Innovation				
17. Bank's involvement in community and social activities				
18. I am likely to recommend this bank to friends and family				
19. Consistency (similar experience and efficiency across all touch points)				

Q9. What is your overall rating if each of the banks below on a scale of 1(very poor) to 10 (excellent)? Please rate only the banks you have experience with.

Overall ratting	ABSA	Nedbank	Standard Bank	FNB

APPENDIX D: QUANTITATIVE SURVEY RESULTS

Demographics

Age

20-29	22%	15
30-39	55%	37
40-49	21%	14
50-59	1%	1
		67

Gender

Male	51%	34
Female	49%	33

Banks that customers Bank with

Standard	73%	49
ABSA	22%	15
NedBank	22%	15
FNB	48%	32

Income group

<8000	9%	6
8001-15000	9%	6
15001-25000	18%	12
25001-40000	36%	24
>40000	24%	16
Not Given	4%	3

Race group

African	72%	48
White	18%	12
Asian	6%	4
Coloured	3%	2
Not given	1%	1

Ranking of Drivers

Construct	Variable	Mean	Deviation
Relationship	Q7_1	4.1970	0.8080
Value	Q7_2	4.7273	0.5960
Value	Q7_3	4.3939	0.6535
Value	Q7_4	4.0303	0.7640
Relationship	Q7_5	3.1212	1.1302
Value	Q7_6	4.0758	0.9167
Value	Q7_7	3.6515	1.1023
Relationship	Q7_8	3.9697	1.1090
Brand	Q7_9	3.4697	1.0261
Brand	Q7_10	2.8485	1.1265
Relationship	Q7_11	4.0606	1.0360
Brand	Q7_12	3.5000	1.0849
Value	Q7_13	4.7727	0.5202
Value	Q7_14	4.6515	0.6200
Value	Q7_15	4.2879	0.8551
Brand	Q7_16	4.0455	0.8121
Brand	Q7_17	3.4242	0.9292
Brand	Q7_18	2.8182	1.0364
Brand	Q7_19	4.1212	0.7548

`Sub-drivers ranked in order of importance

	Sub-driver	Mean	Construct (Main Driver)	Variable
1	Reliability of the banking systems	4.773	Value	Q7_13
2	Safety and security	4.727	Value	Q7_2
3	Efficiency (Speed and accuracy)	4.652	Value	Q7_14
4	Accessibility and convenience of banking services	4.394	Value	Q7_3
5	Provides all the services I need from a bank	4.288	Value	Q7_15
6	Friendly service environment	4.197	Relationship	Q7_1
7	Consistency experience across all touch points	4.121	Brand	Q7_19
8	Bank charges and interest on loans and overdrafts	4.076	Value	Q7_6
9	Proactive communication about changes on my account	4.061	Relationship	Q7_11
10	Innovation	4.045	Brand	Q7_16
11	Account features and benefits	4.030	Value	Q7_4
12	Bank understanding my personal financial needs and gives me personalised services.	3.970	Relationship	Q7_8
13	Interest earned on positive balances	3.652	Value	Q7_7
14	Brand image and Brand reputation	3.500	Brand	Q7_12
15	Aesthetics and appearance (Look and feel)	3.470	Brand	Q7_9
16	Bank's community and social involvement	3.424	Brand	Q7_17
17	Loyalty rewards	3.121	Relationship	Q7_5
18	Bank advertisements and promotions	2.848	Brand	Q7_10
19	Recommendations by friends and family	2.818	Brand	Q7_18

Percentages and Means and reliability.

Constructs and individual variables

	Variable	1	2	3	4	5	Mean	Standard Deviation	Relability (Cronbach's Alpha)
Brand	Q7_9	6.06	7.58	33.33	39.39	13.64	3.47	1.03	0.80
	Q7_10	13.64	21.21	40.91	15.15	9.09	2.85	1.13	
	Q7_12	3.03	16.67	27.27	33.33	19.70	3.50	1.08	
	Q7_16	0.00	3.03	21.21	43.94	31.82	4.05	0.81	
	Q7_17	1.52	12.12	42.42	30.30	13.64	3.42	0.93	
	Q7_18	12.12	25.76	31.82	28.79	1.52	2.82	1.04	
	Q7_19	0.00	1.52	18.18	46.97	33.33	4.12	0.75	
Value	Q7_3	0.00	1.49	4.48	47.76	46.27	4.39	0.65	0.74
	Q7_4	0.00	1.49	23.88	46.27	28.36	4.01	0.77	
	Q7_6	0.00	5.97	19.40	35.82	38.81	4.07	0.91	
	Q7_7	2.99	11.94	28.36	29.85	26.87	3.66	1.09	
	Q7_13	0.00	0.00	5.97	13.43	80.60	4.75	0.56	
	Q7_14	0.00	0.00	7.46	19.40	73.13	4.66	0.62	
	Q7_15	0.00	4.48	13.43	32.84	49.25	4.27	0.86	
Relationship	Q7_1	1.49	0.00	14.93	44.78	38.81	4.19	0.80	0.70
	Q7_5	5.97	25.37	32.84	22.39	13.43	3.12	1.12	
	Q7_8	4.48	5.97	16.42	32.84	40.30	3.99	1.11	
	Q7_11	2.99	7.46	13.43	35.82	40.30	4.03	1.06	
Safety and security	Q7_2	0.00	1.49	2.99	16.42	79.10	4.73	0.59	

Combined Mean for constructs

	Mean	Standard Deviation
Q7_Brand	3.44	0.69
Q7_Value	4.26	0.45
Q7_Rel	3.83	0.75

Mean Performance per Bank

	Standard Bank		ABSA		NedBank		FNB	
Variable	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation
Q8_1	7.44	1.74	5.44	2.35	5.44	2.19	7.33	2.50
Q8_2	7.22	1.30	5.78	2.33	6.11	2.71	7.00	1.58
Q8_3	7.22	1.72	7.33	1.73	4.89	1.05	6.44	1.94
Q8_4	6.67	1.00	5.67	2.35	4.78	1.99	7.56	2.30
Q8_5	5.44	1.13	4.78	2.33	4.44	1.74	7.00	2.50
Q8_6	6.00	1.80	4.11	1.96	4.00	2.18	6.11	2.47
Q8_7	5.33	1.94	4.56	2.79	5.22	2.54	4.67	2.60
Q8_8	5.78	1.56	5.22	1.99	4.00	1.94	6.22	2.44
Q8_9	7.44	1.74	5.11	2.62	5.22	2.28	6.33	2.29
Q8_10	5.67	1.50	5.33	2.06	4.67	1.80	7.22	3.15
Q8_11	5.56	0.88	4.78	2.17	5.11	1.83	7.00	1.80
Q8_12	7.44	1.42	5.22	1.72	5.67	1.66	6.67	2.12
Q8_13	7.89	1.17	6.44	2.19	5.89	2.37	6.56	2.55
Q8_14	6.22	1.20	4.78	2.33	5.22	2.17	5.56	2.60
Q8_15	7.22	1.79	6.67	1.94	5.56	2.19	6.56	3.21
Q8_16	5.67	1.00	5.22	1.86	4.44	1.59	7.33	2.35
Q8_17	6.78	1.48	6.78	1.39	6.00	2.18	5.67	2.65
Q8_18	6.67	1.66	5.44	2.24	4.33	1.73	7.00	2.55
Q8_19	7.11	1.54	5.89	2.15	4.89	1.76	5.67	2.50

Reliability

Reliability Section

		--------- Item Values ----------		---------- If This Item is Omitted ----------			
-------		R2					
Variable	**Mean**	**Standard Deviation**	**Total Mean**	**Total Std.Dev.**	**Coef Alpha**	**Corr Total**	**Other Items**
Q7_2	4.731343	0.5924292	29.80597	3.512915	0.7433	0.0765	0.0506
Q7_3	4.38806	0.6502965	30.14925	3.336001	0.7047	0.3361	0.1629
Q7_4	4.014925	0.768559	30.52239	3.076589	0.6442	0.6246	0.4148
Q7_6	4.074627	0.9097691	30.46269	3.036786	0.6604	0.5357	0.4092
Q7_7	3.656716	1.094784	30.8806	2.982385	0.6904	0.4467	0.2993
Q7_13	4.746269	0.5598508	29.79104	3.404708	0.7122	0.2897	0.2082
Q7_14	4.656716	0.6167421	29.8806	3.268409	0.6808	0.4830	0.4502
Q7_15	4.268657	0.8630827	30.26866	3.092425	0.6684	0.5062	0.4595
Total			34.53731	3.606931	0.7186		

Reliability Section

Variable	Mean	Standard Deviation	Total Mean	Total Std.Dev.	Coef Alpha	Corr Total	Other Items
	--------- Item Values ---------			---------- If This Item is Omitted ----------			
	---------	R2					
Q7_9	3.469697	1.026116	20.75758	4.007917	0.7807	0.5182	0.4495
Q7_10	2.848485	1.126498	21.37879	3.707644	0.7289	0.7617	0.6604
Q7_12	3.5	1.084861	20.72727	3.904811	0.7680	0.5847	0.4202
Q7_16	4.045455	0.8120595	20.18182	4.191233	0.7897	0.4631	0.4638
Q7_17	3.424242	0.9291949	20.80303	3.981572	0.7608	0.6301	0.4106
Q7_18	2.818182	1.0364	21.40909	4.003757	0.7814	0.5150	0.3012
Q7_19	4.121212	0.7547827	20.10606	4.364644	0.8160	0.2669	0.3460
Total			24.22727	4.62367	0.8029		

Cronbach's Alpha 0.802914 Std. Cronbachs Alpha 0.795965

Reliability Section

Variable	mean	Standard Deviation	Total Mean	Total Std.Dev.	Coef Alpha	Corr Total	Other Items
	--------- Item Values ---------			---------- If This Item is Omitted ----------			
---------		R2					
Q7_1	4.19403	0.8022469	11.13433	2.491777	0.6289	0.5401	0.2967
Q7_5	3.119403	1.121719	12.20895	2.364749	0.6977	0.4074	0.1804
Q7_8	3.985075	1.107721	11.34328	2.253295	0.6072	0.5423	0.3274
Q7_11	4.029851	1.058446	11.29851	2.322583	0.6300	0.5079	0.2770
Total			15.32836	3.001959	0.7046		

Cronbach's Alpha 0.704642 Std. Cronbachs Alpha 0.715377

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Robust and Missing-Value Estimation Iteration Section

No.	Count	Trace of Covar Matrix	Percent Change
0	66	15.85012	0.00
1	66	15.85012	0.00
2	66	14.21384	-10.32
3	66	14.21384	0.00
4	66	13.82902	-2.71
5	66	13.82902	0.00

Descriptive Statistics Section

Standard

Variables	Count	Mean	Deviation	Communality
Q7_1	66	4.250906	0.7540902	0.475546
Q7_2	66	4.798722	0.4951924	0.145078
Q7_3	66	4.45023	0.6305578	0.332954
Q7_4	66	4.131474	0.7196708	0.544163
Q7_5	66	3.239962	1.073611	0.518347
Q7_6	66	4.199315	0.8451705	0.727099
Q7_7	66	3.809555	1.120248	0.617908
Q7_8	66	4.122262	1.002438	0.697494
Q7_9	66	3.566154	0.9400523	0.695767
Q7_10	66	2.976465	1.051298	0.813240
Q7_11	66	4.175908	0.922951	0.604069
Q7_12	66	3.589524	1.061397	0.667481
Q7_13	66	4.830926	0.4377847	0.688708
Q7_14	66	4.713036	0.5691932	0.645912
Q7_15	66	4.374057	0.7900719	0.828456
Q7_16	66	4.154259	0.7715586	0.771182
Q7_17	66	3.552772	0.9090381	0.612561
Q7_18	66	2.947409	0.9540924	0.545471
Q7_19	66	4.198642	0.7305537	0.629835

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Correlation Section

	Variables				
Variables	**Q7_1**	**Q7_2**	**Q7_3**	**Q7_4**	**Q7_5**
Q7_1	1.000000	0.090469	0.254880	0.448571	0.424438
Q7_2	0.090469	1.000000	0.179292	0.131788	0.261942
Q7_3	0.254880	0.179292	1.000000	0.294281	0.323180
Q7_4	0.448571	0.131788	0.294281	1.000000	0.469545
Q7_5	0.424438	0.261942	0.323180	0.469545	1.000000
Q7_6	0.308273	0.038614	0.402705	0.409384	0.447291
Q7_7	0.269171	0.147954	0.270551	0.345452	0.414709
Q7_8	0.509958	0.217999	0.188970	0.372299	0.396113
Q7_9	0.326080	0.086881	0.199816	0.215986	0.218053
Q7_10	0.419667	0.135052	0.034197	0.250084	0.190543
Q7_11	0.395185	0.051816	0.367312	0.421657	0.361974
Q7_12	0.334894	0.190919	0.041655	0.219301	0.133825
Q7_13	0.240076	0.262527	0.192555	0.354504	0.195250
Q7_14	0.335829	0.018684	0.191267	0.447745	0.315671
Q7_15	0.315349	0.114734	0.160232	0.444036	0.335739
Q7_16	0.455891	0.309546	0.269774	0.410124	0.459524
Q7_17	0.237299	0.205035	0.293820	0.204552	0.032655
Q7_18	0.180007	0.286434	0.059949	0.169752	0.256755
Q7_19	0.556122	0.214044	0.262590	0.376166	0.403352

Phi=0.328685 Log(Det|R|)=-10.029981 Bartlett Test=580.07 DF=171 Prob=0.000000

	Variables				
Variables	**Q7_6**	**Q7_7**	**Q7_8**	**Q7_9**	**Q7_10**
Q7_1	0.308273	0.269171	0.509958	0.326080	0.419667
Q7_2	0.038614	0.147954	0.217999	0.086881	0.135052
Q7_3	0.402705	0.270551	0.188970	0.199816	0.034197

Q7_4	0.409384	0.345452	0.372299	0.215986	0.250084
Q7_5	0.447291	0.414709	0.396113	0.218053	0.190543
Q7_6	1.000000	0.581257	0.430935	0.296322	0.174500
Q7_7	0.581257	1.000000	0.471785	0.399830	0.203120
Q7_8	0.430935	0.471785	1.000000	0.490986	0.487575
Q7_9	0.296322	0.399830	0.490986	1.000000	0.622648
Q7_10	0.174500	0.203120	0.487575	0.622648	1.000000
Q7_11	0.350432	0.283419	0.530673	0.292370	0.335153
Q7_12	0.127811	0.190150	0.326376	0.430487	0.679917
Q7_13	0.086108	0.153705	0.448383	0.088222	0.238955
Q7_14	0.365030	0.180541	0.203881	-0.031480	0.128370
Q7_15	0.408721	0.264680	0.149473	-0.132194	0.103849
Q7_16	0.305619	0.306185	0.263997	0.175581	0.451428
Q7_17	0.193880	0.241128	0.345237	0.460580	0.618666
Q7_18	0.361596	0.229937	0.401695	0.354231	0.547557
Q7_19	0.452345	0.476278	0.330073	0.197126	0.239995

Phi=0.328685 Log(Det|R|)=-10.029981 Bartlett Test=580.07 DF=171 Prob=0.000000

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Correlation Section

	Variables				
Variables	**Q7_11**	**Q7_12**	**Q7_13**	**Q7_14**	**Q7_15**
Q7_1	0.395185	0.334894	0.240076	0.335829	0.315349
Q7_2	0.051816	0.190919	0.262527	0.018684	0.114734
Q7_3	0.367312	0.041655	0.192555	0.191267	0.160232
Q7_4	0.421657	0.219301	0.354504	0.447745	0.444036
Q7_5	0.361974	0.133825	0.195250	0.315671	0.335739
Q7_6	0.350432	0.127811	0.086108	0.365030	0.408721
Q7_7	0.283419	0.190150	0.153705	0.180541	0.264680
Q7_8	0.530673	0.326376	0.448383	0.203881	0.149473
Q7_9	0.292370	0.430487	0.088222	-0.031480	-0.132194
Q7_10	0.335153	0.679917	0.238955	0.128370	0.103849
Q7_11	1.000000	0.236628	0.286131	0.333977	0.119180
Q7_12	0.236628	1.000000	0.210566	0.082589	0.197722
Q7_13	0.286131	0.210566	1.000000	0.350186	0.236124
Q7_14	0.333977	0.082589	0.350186	1.000000	0.662321
Q7_15	0.119180	0.197722	0.236124	0.662321	1.000000
Q7_16	0.240324	0.380072	0.317494	0.502969	0.634336
Q7_17	0.205944	0.541276	0.271161	0.169855	0.233680
Q7_18	0.269556	0.423913	0.054012	0.076873	0.081483
Q7_19	0.308723	0.179428	0.216075	0.423068	0.556063

Phi=0.328685 Log(Det|R|)=-10.029981 Bartlett Test=580.07 DF=171 Prob=0.000000

	Variables			
Variables	**Q7_16**	**Q7_17**	**Q7_18**	**Q7_19**
Q7_1	0.455891	0.237299	0.180007	0.556122
Q7_2	0.309546	0.205035	0.286434	0.214044
Q7_3	0.269774	0.293820	0.059949	0.262590
Q7_4	0.410124	0.204552	0.169752	0.376166
Q7_5	0.459524	0.032655	0.256755	0.403352
Q7_6	0.305619	0.193880	0.361596	0.452345
Q7_7	0.306185	0.241128	0.229937	0.476278

Q7_8	0.263997	0.345237	0.401695	0.330073
Q7_9	0.175581	0.460580	0.354231	0.197126
Q7_10	0.451428	0.618666	0.547557	0.239995
Q7_11	0.240324	0.205944	0.269556	0.308723
Q7_12	0.380072	0.541276	0.423913	0.179428
Q7_13	0.317494	0.271161	0.054012	0.216075
Q7_14	0.502969	0.169855	0.076873	0.423068
Q7_15	0.634336	0.233680	0.081483	0.556063
Q7_16	1.000000	0.409512	0.335526	0.618094
Q7_17	0.409512	1.000000	0.428641	0.286149
Q7_18	0.335526	0.428641	1.000000	0.188271
Q7_19	0.618094	0.286149	0.188271	1.000000

Phi=0.328685 Log(Det|R|)=-10.029981 Bartlett Test=580.07 DF=171 Prob=0.000000

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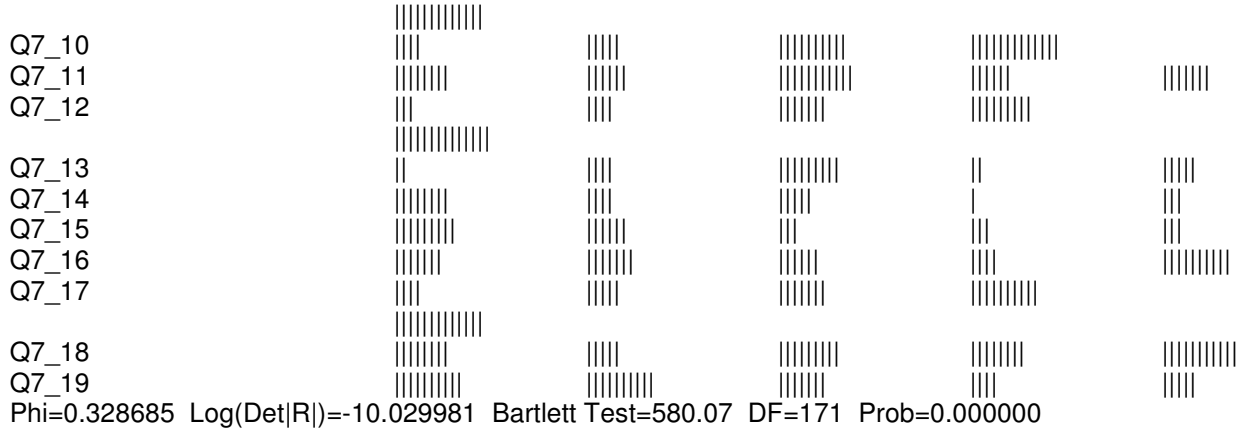
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Bar Chart of Absolute Correlation Section

	Variables				
Variables	**Q7_1**	**Q7_2**	**Q7_3**	**Q7_4**	**Q7_5**
Q7_1		||	||||||	||||||||	||||||||
Q7_2	||		||||	|||	||||||
Q7_3	||||||	||||		||||||	||||||
Q7_4	||||||||	|||	||||||		||||||||
Q7_5	||||||||	||||||	|||||||	|||||||||	
Q7_6	|||||||	|	||||||||	||||||||	||||||||
Q7_7	||||||	|||	||||||	|||||||	||||||||
Q7_8	||||||||||	|||||	||||	||||||||	||||||||
Q7_9	||||||	||	||||	|||||	|||||
Q7_10	||||||||	|||	|	||||||	||||
Q7_11	|||||||	||	|||||||	||||||||	|||||||
Q7_12	|||||||	||||	|	|||||	|||
Q7_13	|||||	||||||	||||	||||||||	||||
Q7_14	||||||	|	||||	||||||||	||||||
Q7_15	||||||	|||	||||	||||||||	||||||
Q7_16	|||||||||	||||||	||||||	||||||||	|||||||||
Q7_17	|||||	|||||	||||||	|||||	|
Q7_18	||||	||||||	||	||||	||||||
Q7_19	|||||||||||	|||||	||||||	|||||||	||||||||

Phi=0.328685 Log(Det|R|)=-10.029981 Bartlett Test=580.07 DF=171 Prob=0.000000

	Variables				
Variables	**Q7_6**	**Q7_7**	**Q7_8**	**Q7_9**	
	Q7_10				
Q7_1	||||||	||||||	||||||||||	|||||||	||||||||
Q7_2	|	|||	|||||	||	|||
Q7_3	||||||||	||||||	||||	||||	|
Q7_4	||||||||	|||||||	||||||||	|||||	||||||
Q7_5	||||||||	||||||||	||||||||	|||||	||||
Q7_6		|||||||||||	||||||||	||||||	||||
Q7_7	|||||||||||		|||||||||	|||||||	|||||
Q7_8	||||||||	|||||||||		|||||||||	|||||||||
Q7_9	||||||	||||||||	|||||||||		

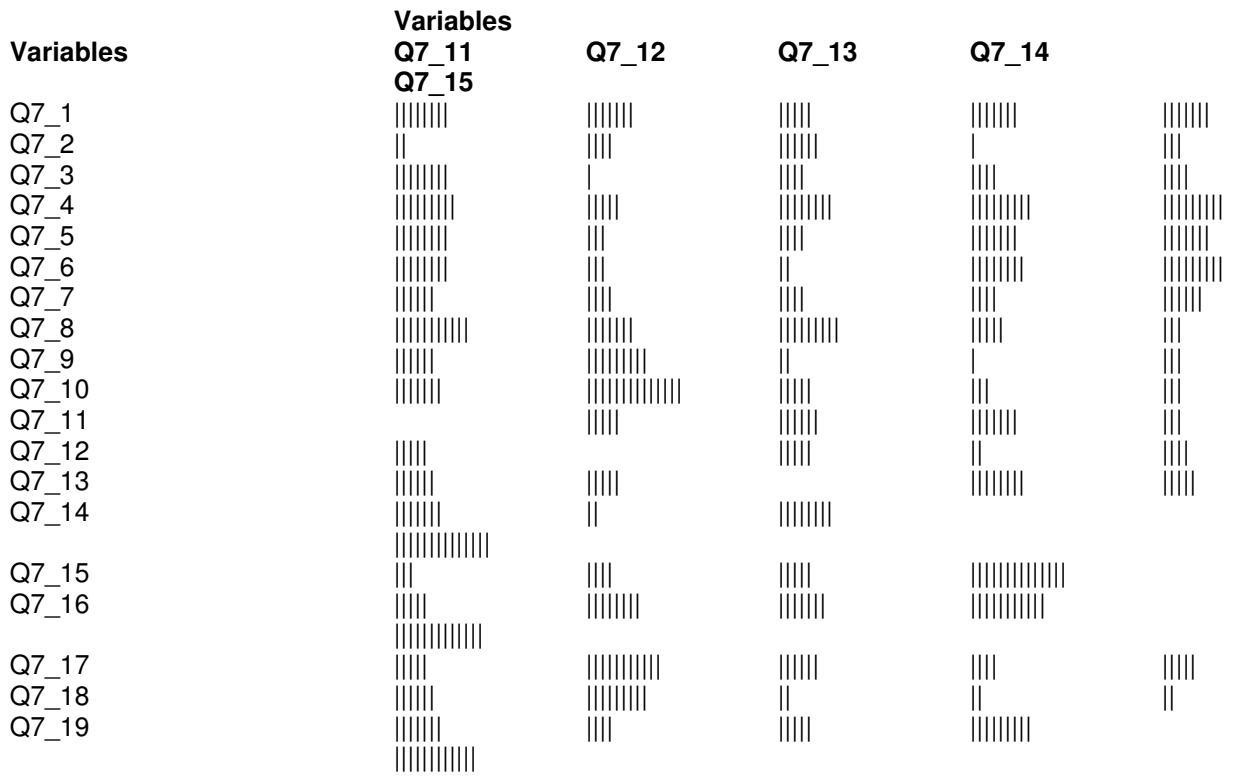


Phi=0.328685 Log(Det|R|)=-10.029981 Bartlett Test=580.07 DF=171 Prob=0.000000

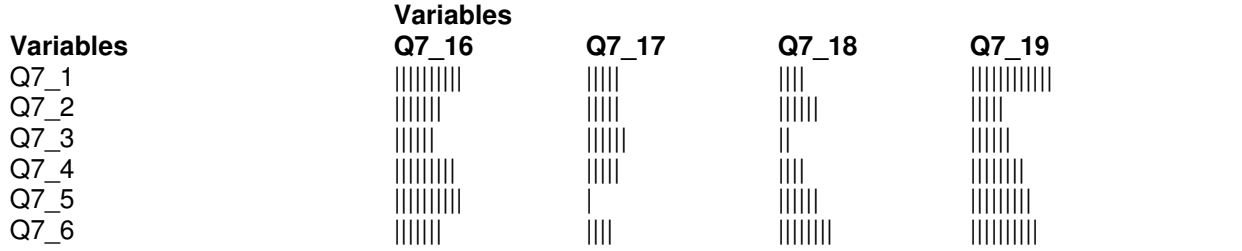
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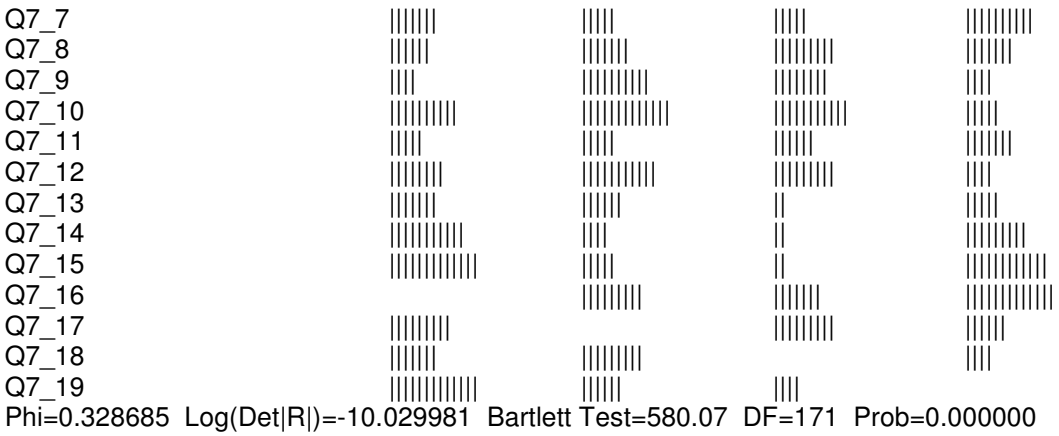
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Bar Chart of Absolute Correlation Section



Phi=0.328685 Log(Det|R|)=-10.029981 Bartlett Test=580.07 DF=171 Prob=0.000000




Q7_7
Q7_8
Q7_9
Q7_10
Q7_11
Q7_12
Q7_13
Q7_14
Q7_15
Q7_16
Q7_17
Q7_18
Q7_19
Phi=0.328685 Log(Det|R|)=-10.029981 Bartlett Test=580.07 DF=171 Prob=0.000000

Eigenvalues after Varimax Rotation

No.	Eigenvalue	Individual Percent	Cumulative Percent	Scree Plot
1	2.923425	15.39	15.39	||||
2	3.480431	18.32	33.70	||||
3	3.066145	16.14	49.84	||||
4	2.091270	11.01	60.85	|||
5	1.139402	6.00	66.85	||
6	0.941167	4.95	71.80	|
7	0.827145	4.35	76.15	|
8	0.794842	4.18	80.34	|
9	0.626553	3.30	83.63	|
10	0.480576	2.53	86.16	|
11	0.465005	2.45	88.61	|
12	0.447476	2.36	90.97	|
13	0.387342	2.04	93.00	|
14	0.317085	1.67	94.67	|
15	0.271217	1.43	96.10	|
16	0.254783	1.34	97.44	|
17	0.191937	1.01	98.45	|
18	0.150882	0.79	99.25	|
19	0.143318	0.75	100.00	|

Eigenvectors after Varimax Rotation

	Factors			
Variables	**Factor1**	**Factor2**	**Factor3**	**Factor4**
Q7_1	-0.264050	0.039907	0.022566	0.136532
Q7_2	-0.126027	-0.051531	-0.152391	0.015491
Q7_3	-0.172149	0.122047	0.253870	0.072359
Q7_4	-0.254849	0.179074	0.052221	0.195973
Q7_5	-0.241545	0.176731	0.205487	-0.046880
Q7_6	-0.246540	0.143992	0.326259	-0.318700
Q7_7	-0.234375	0.042449	0.327441	-0.279633
Q7_8	-0.274845	-0.146689	0.230839	0.254646
Q7_9	-0.204779	-0.373837	0.239249	-0.059670
Q7_10	-0.248714	-0.392218	-0.177321	0.012756
Q7_11	-0.231816	-0.006148	0.263391	0.355419
Q7_12	-0.211089	-0.333555	-0.271539	-0.029935
Q7_13	-0.180368	0.049514	-0.165721	0.602598
Q7_14	-0.209629	0.340845	-0.216093	0.108417
Q7_15	-0.215617	0.360495	-0.336651	-0.191235
Q7_16	-0.285197	0.122939	-0.342670	-0.154841
Q7_17	-0.225051	-0.282685	-0.241759	-0.066994
Q7_18	-0.202208	-0.286319	-0.029543	-0.269250
Q7_19	-0.268856	0.207436	-0.062361	-0.217531

Bar Chart of Absolute Eigenvectors after Varimax Rotation

	Factors			
Variables	**Factor1**	**Factor2**	**Factor3**	**Factor4**
Q7_1	||||||	|	|	|||
Q7_2	|||	||	||||	|
Q7_3	||||	|||	||||||	||
Q7_4	||||||	||||	||	||||
Q7_5	|||||	||||	|||||	|
Q7_6	|||||	|||	|||||||	|||||||
Q7_7	|||||	|	|||||||	||||||
Q7_8	||||||	|||	|||||	||||||
Q7_9	|||||	||||||||	|||||	||
Q7_10	|||||	||||||||	||||	|
Q7_11	|||||	|	||||||	||||||||
Q7_12	|||||	|||||||	||||||	|
Q7_13	||||	|	||||	||||||||||||
Q7_14	|||||	|||||||	|||||	|||
Q7_15	|||||	||||||||	|||||||	||||
Q7_16	||||||	|||	|||||||	||||
Q7_17	|||||	||||||	|||||	||
Q7_18	|||||	||||||	|	|||||
Q7_19	||||||	|||||	||	|||||

Factor Loadings after Varimax Rotation

	Factors			
Variables	**Factor1**	**Factor2**	**Factor3**	**Factor4**
Q7_1	-0.306400	-0.286311	0.353851	0.417708
Q7_2	-0.211670	-0.291333	0.019957	0.122476
Q7_3	-0.114656	0.015404	0.481352	0.296430
Q7_4	-0.394325	-0.088240	0.383960	0.483176
Q7_5	-0.309405	-0.056649	0.597150	0.250637
Q7_6	-0.247369	-0.103811	0.809399	0.001728
Q7_7	-0.127176	-0.198631	0.749632	0.018198
Q7_8	0.039826	-0.418648	0.460458	0.555536
Q7_9	0.283405	-0.640752	0.425845	0.153434
Q7_10	-0.050502	-0.871246	0.076717	0.213859
Q7_11	0.001084	-0.163560	0.429668	0.626659
Q7_12	-0.141602	-0.794262	-0.029343	0.125367
Q7_13	-0.265202	-0.148592	-0.112676	0.763937
Q7_14	-0.715206	0.044974	0.155216	0.329055
Q7_15	-0.891888	-0.040297	0.175082	0.026706
Q7_16	-0.744381	-0.411295	0.187580	0.112826
Q7_17	-0.191736	-0.749056	0.046087	0.112200
Q7_18	-0.041739	-0.675736	0.283300	-0.082762
Q7_19	-0.607102	-0.192412	0.466914	0.078941

Bar Chart of Absolute Factor Loadings after Varimax Rotation

	Factors			
Variables	**Factor1**	**Factor2**	**Factor3**	**Factor4**
Q7_1	|||||||	||||||	||||||||									
Q7_2	|||||	||||||		|||
Q7_3	|||		|||||||||	||||||
Q7_4	|||||||	||	||||||||	||||||||||
Q7_5	|||||||	||	||||||||||||	||||||
Q7_6																													
Q7_7	|||	||||	||||||||||||||	
Q7_8			|||||||||	|||||||||											
Q7_9	||||||	||||||||||||	|||||||||	||||
Q7_10	||	||||||||||||||||	||	|||||
Q7_11			||||	|||||||||											
Q7_12	|||	||||||||||||||		|||
Q7_13	||||||	|||	|||															
Q7_14	||||||||||||||		||||	|||||||
Q7_15	||||||||||||||||		||||	
Q7_16	||||||||||||||	||||||||	||||	|||
Q7_17	||||	||||||||||||||		|||
Q7_18																											
Q7_19	||||||||||||	||||	||||||||||	||

Communalities after Varimax Rotation

	Factors			
Variables	**Factor1**	**Factor2**	**Factor3**	**Factor4**
	Communality			
Q7_1	0.093881	0.081974	0.125211	0.174480
	0.475546			
Q7_2	0.044804	0.084875	0.000398	0.015000
	0.145078			
Q7_3	0.013146	0.000237	0.231700	0.087871
	0.332954			
Q7_4	0.155492	0.007786	0.147425	0.233459
	0.544163			
Q7_5	0.095732	0.003209	0.356588	0.062819
	0.518347			
Q7_6	0.061192	0.010777	0.655127	0.000003
	0.727099			
Q7_7	0.016174	0.039454	0.561949	0.000331
	0.617908			
Q7_8	0.001586	0.175266	0.212022	0.308620
	0.697494			
Q7_9	0.080319	0.410563	0.181344	0.023542
	0.695767			
Q7_10	0.002550	0.759069	0.005886	0.045735
	0.813240			
Q7_11	0.000001	0.026752	0.184615	0.392701
	0.604069			
Q7_12	0.020051	0.630852	0.000861	0.015717

	0.667481			
Q7_13	0.070332	0.022080	0.012696	0.583600
	0.688708			
Q7_14	0.511520	0.002023	0.024092	0.108277
	0.645912			
Q7_15	0.795465	0.001624	0.030654	0.000713
	0.828456			
Q7_16	0.554103	0.169164	0.035186	0.012730
	0.771182			
Q7_17	0.036763	0.561085	0.002124	0.012589
	0.612561			
Q7_18	0.001742	0.456620	0.080259	0.006850
	0.545471			
Q7_19	0.368573	0.037022	0.218009	0.006232
	0.629835			

Bar Chart of Communalities after Varimax Rotation

Variables	**Factors** **Factor1**	**Factor2**	**Factor3**	**Factor4**	**Communality**
Q7_1	||	||	|||	||||	||||||||
Q7_2	|	||	|	|	|||
Q7_3	|	|	|||||	||	||||||
Q7_4	||||	|	|||	|||||	|||||||||
Q7_5	||	|	|||||||	||	|||||||||
Q7_6	||	|	||||||||||||	|	||||||||||||
Q7_7	|	|	|||||||||||	|	|||||||||||
Q7_8	|	||||	|||||	||||||	||||||||||||
Q7_9	||	||||||||	||||	|	||||||||||||
Q7_10	|	||||||||||||||	|	|	|||||||||||||||
Q7_11	|	|	||||	|||||||	||||||||||||
Q7_12	|	|||||||||||	|	|	||||||||||||
Q7_13	||	|	|	|||||||||||	||||||||||||
Q7_14	||||||||||	|	|	|||	||||||||||||
Q7_15	|||||||||||||||	|	|	|	|||||||||||||||
Q7_16	|||||||||||	||||	|	|	||||||||||||||
Q7_17	|	|||||||||||	|	|	||||||||||||
Q7_18	|	|||||||||	||	|	||||||||||

Q7_19	||||||||	|	|||||	|
	||||||||||||			

Factor Structure Summary after Varimax Rotation

	Factors		
Factor1	**Factor2**	**Factor3**	**Factor4**
Q7_15	Q7_10	Q7_6	Q7_13
Q7_16	Q7_12	Q7_7	Q7_11
Q7_14	Q7_17	Q7_5	Q7_8
Q7_19	Q7_18	Q7_3	Q7_4
	Q7_9	Q7_19	Q7_1
	Q7_8	Q7_8	
	Q7_16	Q7_11	
		Q7_9	

Residual Section

Row	**T2**	**T2 Prob**	**Weight**	**Q0**

Residual report not available when factors are rotated.

Factor Score after Varimax Rotation

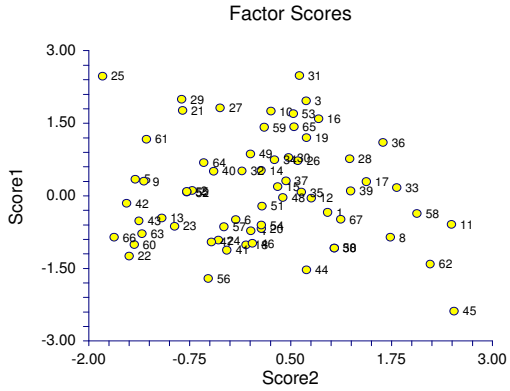
	Factors			
Row	**Factor1**	**Factor2**	**Factor3**	**Factor4**
1	-0.3464	0.9627	2.5792	-1.5935
2	0.1080	-0.7176	-1.6823	0.6154
3	1.9597	0.6949	-0.9018	-0.0586
4	-0.7233	0.0104	0.5169	-0.0545
5	0.3399	-1.4216	-0.5064	-1.8433
6	-0.4953	-0.1767	0.6831	-0.4722
8	-0.8598	1.7404	1.3871	1.1537
9	0.2969	-1.3130	1.1003	0.7483
10	1.7463	0.2582	0.9193	1.6266
11	-0.5964	2.4958	0.0473	0.7182
12	-0.0514	0.7587	-0.3108	0.3032
13	-0.4634	-1.0930	0.8139	0.2977
14	0.5205	0.1384	1.2829	1.0012
15	0.1861	0.3415	1.6407	-0.0730
16	1.5901	0.8492	-0.2854	0.8273
17	0.2898	1.4432	0.5506	0.8161
18	-1.0190	-0.0500	0.8220	-0.9460
19	1.1954	0.6989	0.1995	-1.5680
20	-0.6794	0.1397	-0.4727	-0.1588
21	1.7606	-0.8360	-1.8644	-0.1672
22	-1.2472	-1.4984	-1.8855	-1.1646
23	-0.6318	-0.9345	1.0694	0.0825
24	-0.9200	-0.3922	0.9972	-0.0956
25	2.4680	-1.8261	-0.5509	-0.2360
26	0.7242	0.5930	0.0780	-1.3120
27	1.8128	-0.3698	0.7750	-1.4523
28	0.7625	1.2349	0.0125	-3.3090

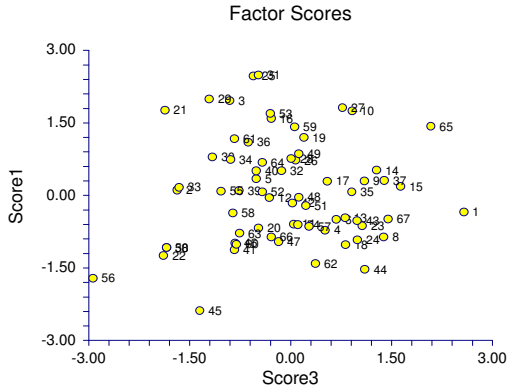
29	1.9918	-0.8452	-1.2055	-0.9633
30	0.7899	0.4768	-1.1586	0.8068
31	2.4845	0.6106	-0.4751	1.7886
32	0.5096	-0.0993	-0.1333	0.7849
33	0.1643	1.8163	-1.6549	-1.4150
34	0.7410	0.3039	-0.8888	0.6416
35	0.0732	0.6350	0.9133	-0.5326
36	1.0971	1.6481	-0.6248	0.4671
37	0.3058	0.4450	1.3968	0.9023
38	-1.0803	1.0444	-1.8399	0.7232
39	0.0979	1.2478	-0.7623	-0.8790
40	0.5045	-0.4505	-0.5067	-2.6315
41	-1.1261	-0.2860	-0.8306	-0.0695
42	-0.1597	-1.5267	0.0314	0.5353
43	-0.5228	-1.3760	0.9928	0.2923
44	-1.5319	0.6982	1.1070	-2.6471
45	-2.3850	2.5287	-1.3472	-1.0841
46	-0.9859	0.0291	-0.8197	0.5281
47	-0.9581	-0.4778	-0.1759	0.5870
48	-0.0400	0.4077	0.1232	0.7450
49	0.8598	0.0043	0.1246	0.7105

Factor Score after Varimax Rotation

	Factors			
Row	**Factor1**	**Factor2**	**Factor3**	**Factor4**
50	-1.0803	1.0444	-1.8399	0.7232
51	-0.2137	0.1499	0.2290	0.8391
52	0.0722	-0.7826	-0.4191	0.3884
53	1.6924	0.5353	-0.2973	-3.2544
54	-0.6076	0.1425	0.1115	0.2164
55	0.0845	-0.7838	-1.0295	1.0485
56	-1.7129	-0.5161	-2.9344	-0.8206
57	-0.6431	-0.3222	0.2768	-0.6826
58	-0.3664	2.0692	-0.8561	1.3774
59	1.4131	0.1752	0.0613	0.4385
60	-1.0123	-1.4345	-0.8017	0.2151
61	1.1676	-1.2840	-0.8323	1.1387
62	-1.4137	2.2324	0.3722	0.0503
63	-0.7837	-1.3377	-0.7555	-0.7521
64	0.6809	-0.5726	-0.4190	-0.3632
65	1.4246	0.5432	2.0880	-1.2802
66	-0.8598	-1.6835	-0.2849	0.5141
67	-0.4902	1.1234	1.4529	0.7667

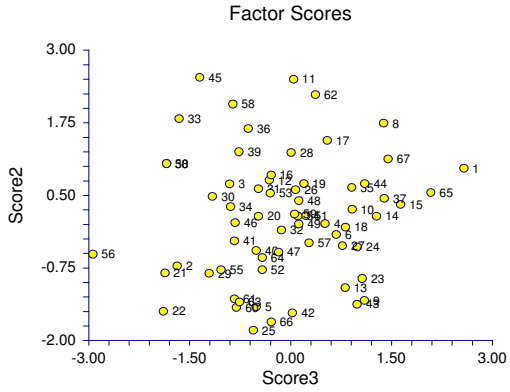
Plots Section

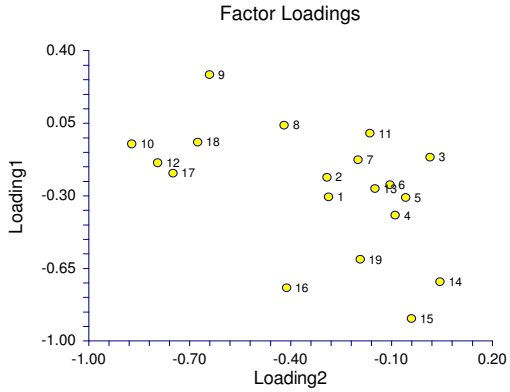


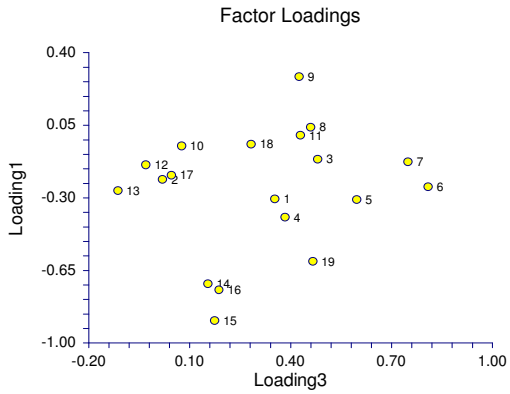


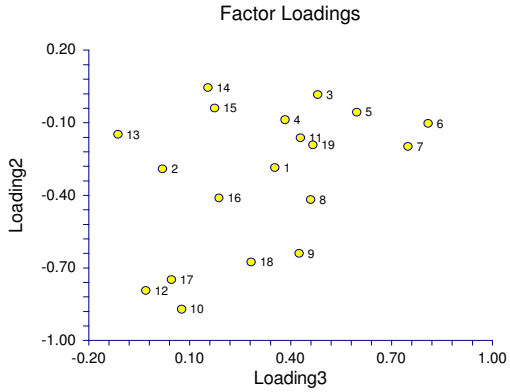
Principal Components Report

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Factor Loadings
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Loading2
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0.05
-0.30
-0.65
-1.00
-1.00
-0.70
-0.40
-0.10
0.20
9
8
11
10
18
7
3
12
17
2
6
1
5
4
19
14
16
15


Factor Loadings
Loading1
Loading3
0.40
0.05
-0.30
-0.65
-1.00
-0.20
0.10
0.40
0.70
1.00
9
8
11
10
18
3
7
12
17
2
6
13
1
5
4
19
14
16
15


Factor Loadings
Loading2
Loading3
0.20
-0.10
-0.40
-0.70
-1.00
-0.20
0.10
0.40
0.70
1.00
14
3
15
5
4
6
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11
19
7
2
1
16
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17
12
10