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WHAT'S A CLIENT WORTH?

(Depends on how hard you work to keep them.)

UNDERSTANDING LIFETIME VALUE (LTV) AND MANAGING CHURN ARE ESSENTIAL TO GROWING BUSINESS BANKING CLIENTS.

by Mimi Flowers
VP, Financial Services Strategy & Client Relations, Anderson Direct & Digital

Today's Top B2B Banking Challenges

Marketers can ease some of these concerns by working to increase customer worth, reducing churn and adding value.

Competition

While bank consolidations abound, regulation and compliance have narrowed the field. Non-traditional and "fintech" competitors (e.g., Kabbage, Balboa Capital, etc.) are gaining traction.

Technology

Advancements in technology are reducing time to market, plus eroding differentiation and customer loyalty. Digital convenience can also weaken barriers to attrition.

Regulation & Compliance

Dealing with current requirements while struggling to manage the uncertainty of the future can blunt strategic momentum and sap resources, especially within smaller institutions.

Low Interest Rates

Years of low rates have cut margins across the board. Add the growing costs of regulation and compliance and it becomes challenging for bankers to increase revenue while managing expenses.

It's not easy being a business banker these days. Interest rates are in the basement. Regulatory pressures are unrelenting. Competition is at an all-time high, with non-traditional or so-called "fintech" companies blooming like flowers after a spring rain. What's more, for many clients, aggressive marketing offers and new digital channels put defection just a click or two away.

Challenges abound, opportunity calls

So, why aren't more players throwing in the towel and getting out of the game? Because even with all these challenges, corporate bankers still have at their disposal many of the same tools and levers other marketers have to attract, win, evaluate, grow and keep clients. Because where some see hurdles, plenty more see opportunity.

In a recent 2016 survey, two-thirds of banking executives believe their organizations are actively embracing change, and 87% foresee revenue growth over the coming year.[1]

That's the good news. What may be startling news for a few is that, like their non-banking brethren, financial marketing executives must learn to adopt more aggressive marketing skills, tools and techniques if they hope to be successful in today's marketplace.

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This white paper hopes to make that quest easier by:

- Explaining the concept, importance and methodology behind customer lifetime value (LTV)
- Discussing the indicators of and main reasons for customer churn.
- Showing how to increase LTV (and revenue) by reducing churn while improving loyalty and retention

[1] *Stephens, Brian. 2016 Banking Outlook Survey. KMPG*

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Three keys to success

Competition. Digital banking. Regulation and compliance. Low profitability. Amid this new milieu, it is more important than ever for financial institutions to allocate the proper time and resources toward nurturing and growing existing client relationships.

There are three essential steps needed to accomplish this:

1. Understand the monetary value of each client
2. Anticipate and try to reduce churn
3. Provide clients with more substance to add value and establish long-term trusting relationships

Now, let's take a closer look at each one of these elements.

How to Calculate Customer Lifetime Value (LTV)

(Average Annual Revenue - Cost to Serve)
X
(Average Retention Time in Years)

Clearly, the longer you retain a client, the greater their LTV and importance to the success of your business.

What is Customer Lifetime Value (LTV)?
Answer: One of your most vital success metrics

Customer Lifetime Value, or LTV, is a key measurement for understanding what each client is worth to your business. Roughly defined, it is the projected revenue any given client will generate in the course of their tenure as your customer.

Business analysts have complex formulas that use factors like discount rates and contribution margins to determine LTV with great accuracy. But for our purposes—and to provide basic strategic direction—a good rule of thumb method is: (Average Annual Revenue - Cost to Serve) X (Average Retention Time in Years).

Different customer segments can have significantly different LTVs based upon demographics, buying behavior (average annual spend) and other considerations. Ultimately, bankers can and should develop specific retention and up-tiering strategies around each of these segments.

A decline in LTV over time could be an indicator of churn. That's why it is essential to determine an average LTV as a benchmark. By closely monitoring your clients on an individual level, you can identify those at risk for churn and put tactics into place to prevent it.

LIFETIME VALUE

Average Annual Spend x Customer Lifespan

Middle-Market Average Annual Spend Less Cost to Service
$5,700

Average Client Relationship Lifespan
8 years

Customer Lifetime Value
$45,600

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How to Calculate Your Churn Rate

(Number of Client Defections at Year-End)
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(Total Number of Clients at Year-End)

Just a 5% reduction in customer churn can boost net profits up to 80%.[4]

Know your churn rate, grow your business

It can happen in a heartbeat: your client has a bad experience or two, or needs products and services you don't offer. They sift back through that stash of emails or mail pieces from the competition, find an offer they like then, presto, they're gone—"churned out" and taking their money elsewhere.

BIGGEST REASONS WHY B2B BANKING CLIENTS LEAVE[2]

- **Performance**
- **Pricing**
- **Products**
- **Process**

Poor banking performance is the chief driver of churn.

Churn rate is another key metric every business banker should know. As with Customer Lifetime Value, there are many sophisticated ways of calculating it, but a good general measure is simply: (Number of Client Defections at Year-End ÷ Total Number of Clients at Year-End).

For example, if you have 500 B2B clients at the end of the year and 50 clients churned during the year, your churn rate is 10%. Some industry reports estimate that banks are losing customers at an average rate of 12.5% per year, so if your churn rate is 10% per year, you might actually believe you're doing well.[3]

Churn goes down, profit goes up

Also known as attrition or defection, churn has a direct impact on Customer Lifetime Value and your ability to grow. At a churn rate of 10%, if you also acquire new clients at a 10% rate, you are effectively going nowhere. Worse, when you factor in marketing and acquisition costs, you will actually be eating into profits and moving backward.

But that's not all. Businesses will commonly spend up to 5X more acquiring a new customer versus what they would spend to retain an existing one—a cost that can equate to 65-80% of a typical marketing budget. Plus, for every client you lose, your initial investment vanishes along with the relationship.

In "The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value," author Frederick Reichheld states that just a 5% reduction in customer churn can boost net profits up to 80%.[4]

[2]Turner, Grant. 4 Main Reasons Small Businesses Switch Banks. Onovative.com
[3]The Cost of Customer Churn. Financial Publishing Services. FPSC.com
[4]Reichheld, Frederick. The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value. Bain & Company, 1996.

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Are your clients about to churn? Check your gauges.

Identifying behaviors that indicate client churn helps develop strategies to mitigate that risk and increase retention.

Lifetime Value (LTV)

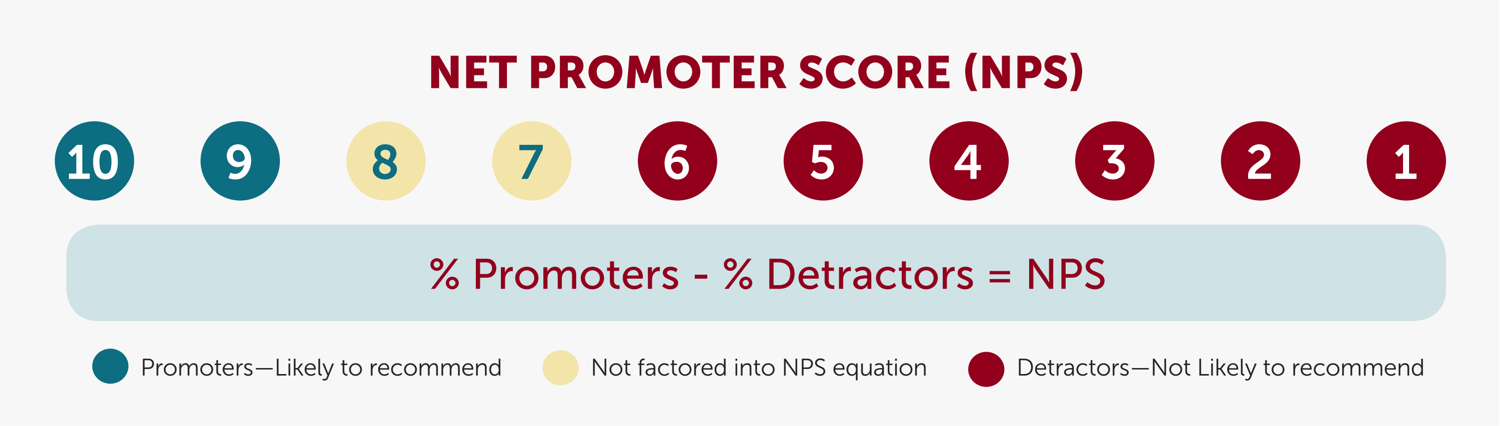
As stated earlier, different customer segments can have significantly different lifetime values based on their average annual spend and length of relationship. Measuring these segments against an LTV benchmark can help identify those at risk for churn.

Service Scores

Poor performance is the number one reason why clients defect, so winning in service is clearly key to retaining them. An increase in customer care visits or calls could indicate some unsolved issue that might precipitate churn. Thus, first-call resolution rates are extremely important.

Individualized Satisfaction Ratings

How likely are you to recommend us to a colleague? A simple question with powerful implications. Based on a scale of 1-10, the Net Promoter Score® (NPS®) can identify so-called Promoters or Detractors among your clientele and is a common way to measure overall satisfaction. Research has consistently proven its ability to predict business growth.



Not every Promoter is a diehard loyalist, and not all Detractors will head for the door. But ask clients to rate you at the close of each transaction, and you'll have another useful tool for gauging churn potential.

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MAKE YOUR CLIENTS WORTH MORE

Engage and retain them by offering:

- **Solutions and experiences, not just products and services**
- **More digital offerings**
- **An empowered client relationship manager**
- **Great content**

Increasing Customer Lifetime Value. Let's do this!

We've discussed how reducing churn while improving loyalty and retention can increase lifetime value, revenue and profitability. So, given intense competition and other market forces, what are some of the strategies B2B bankers can adopt to keep clients satisfied and increase their worth?

Think solutions and experiences, not products and services

Although they're seemingly offered in a multitude of "flavors," at the end of the day, B2B banking products and services can often be perceived as commodities. Change perceptions by concentrating on solving real-world business problems, and make sure client interactions with your brand are seamless, convenient and enjoyable across all touchpoints—online and in-branch.

Elevate the role of the relationship manager

Amid a very crowded marketplace, today's companies (and your prospective clients) want and need a fully committed financial partner who truly understands and cares about their business. An empowered relationship manager is the perfect expression of your commitment to be that partner.

Because trust is the primary driver of satisfaction,[5] it is very important for the relationship manager to establish and cultivate a bond of trust and work hard to resolve issues early.

Expand digital offerings

Though they have a low rate of implementation when compared to the consumer side of the business, digital channels on the B2B side have increased the typical number of interactions, which increases the chances to succeed or fail in satisfying clients—a double-edged sword.

It's also true that digital adopters have a tendency to want more services. That's why it's important to provide a broader customer service initiative to support them.

Institute content marketing

In B2B banking, as in many industries these days, it can be hard for clients to distinguish the offerings of one company from another. Content marketing can go a long way toward alleviating this challenge.

Providing your clientele with a steady stream of content—articles, newsletters, blogs, and a library of online resources—can help you attract, retain and increase their loyalty by solving problems, providing insights and adding value to the relationship. The goal is to have them perceive you as more than "just a bank."

[5] *Accenture. July 2015. The Financial Brand*

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Operationalize analytics

Improving customer retention depends on capturing key metrics such as churn rates, Net Promoter Scores® and LTV. But, just as important, you must also be able to acquire a "single view" of each client across all branches, business divisions and touchpoints. The challenge here is that banking products and services are often managed in silos. Mergers and acquisitions only add to the complexity.

One solution is to "operationalize" these data across the organization. This often calls for an overhaul that may entail:

- A redesign of databases
- Using "big data" to synthesize data across all channels and touchpoints
- Creating a more agile IT infrastructure
- Enforcing greater collaboration between marketing and IT

Fair warning: tinkering with IT infrastructure can be time-consuming and perilous. However, in this case, the rewards for doing so can be immense.

Press on!
This journey's well worth the effort

What's a client worth? The answer can and should be expressed in dollars and cents. But the question becomes even more powerful as a point of departure for our mission to improve the way we identify customer segments, determine lifetime value, and work toward reducing our churn rate.

Considering competitive pressures and economic forces, plus evolving technology and client preferences, the road may indeed be bumpy. But the trip is always rewarding.

About Anderson Direct & Digital

Anderson Direct & Digital is one of the nation's leading full-service marketing services agencies—one dedicated to helping companies acquire new customers, grow profitable customer relationships and retain their best customers.

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888.694.5094