



Dismantle Organizational Silos to Build a Customer Focused Enterprise

*A banker's guide to creating
a comprehensive single view of each
commercial client relationship*

Before banks can become customer-focused organizations, they need to dismantle or transcend organizational silos.

— “Silo Busting: How to Execute on the Promise of Customer Focus,” May 2007, by Ranjay Gulati

The customer pool for banks is shrinking, and each year most banks lose nearly as many customers as they acquire. In response, banks and other financial institutions are taking the difficult step of tearing down the various information silos that prevent customer intimacy. They are rebuilding their enterprises from the top down with a customer-centric focus.

Redefining Your ‘Value’ To Customers

With business customers having more access to information, less sensitivity to traditional advertising and more sensitivity to price, creating value for customers is becoming harder to achieve.

So, in the competition for customers, how does your bank stand out from the others in your customer’s mind?

Forrester Research says organizations need to dramatically improve the customer experience they deliver, through what it terms Experienced-Based Differentiation. EBD requires an enterprise-wide change in mind-set, organization and structure. In Forrester’s research report, “Experience-Based Differentiation: How to Build Loyalty with Every Interaction,” analyst Bruce Temkin offers three imperatives:

1. Obsess about customer needs.
2. Reinforce brand with every action.
3. Make excellent customer service a company-wide mission, not just a consideration for those who interact with customers.

The new mind-set requires a redefinition of customer value. Customer value isn’t

just the value the bank gets from the customer. It also includes the value the customer receives in return — for that is what ultimately sustains the relationship.

When seeking mutual value creation, keep in mind the following points from SAS Institute’s white paper, “Organic Customer Growth for Financial Services Institutions”:

- *Customer retention* doesn’t necessarily mean customer satisfaction. A customer who holds a bank in low esteem but stays may be merely trapped, not loyal.
- *Customer satisfaction* is no guarantee of loyalty. “Satisfied” customers might still be lured away by competing offers or the need to diversify.
- *Customer loyalty* is the combination of satisfaction and behavior, but is no guarantee of profitability.

Beginning the Process of Integration

Before banks can become customer-focused organizations, they need to dismantle or transcend organizational silos. According to a recent article in *Harvard Business Review* (“Silo Busting: How to Execute on the Promise of Customer Focus,” May 2007, by Ranjay Gulati), some of the key factors in achieving this are:

- *Coordination*. Sharing information and coordinating activities across all business units.
- *Cooperation*. Through incentives, structures and allocations of power, enabling all departments to work together to satisfy customer needs.

Asking customers, “Would you recommend us to a friend or colleague?” can unearth keen insights into customer attitudes and help predict future behaviors.

— Fredrick Reichheld, loyalty expert and author of *The Ultimate Question for Unlocking the Door to Good Profits and True Growth*

- *Capability Development.* Developing skills that empower employees to deliver customer-focused solutions. This includes providing incentives— attractive career paths, for example—for those who succeed in busting through silos to deliver comprehensive customer solutions.

Information Sharing is Essential

Coordinating the efforts of multiple departments enables value creation for customers that otherwise would not be possible. A customer-centric culture facilitates a comprehensive view of the customer across all products. In contrast, a product-centric culture provides only a partial glimpse of the customer through a specific product lens. The latter view provides no insight into the banks’ share of wallet with the customer. Furthermore, this single-product view makes it difficult to spot and respond to cross-sell opportunities.

Information formerly sequestered by department must be shared among all bank business lines. You can most easily achieve this by creating structural overlays that transcend rather than obliterate old systems.

For instance, senior executives for multiple bank business lines can share accountability for customer retention. Some experts suggest creating a new C-level position in charge of the customer experience. In fact, several forward-thinking banks have already created such positions.

Existing customer data silos need to be scrubbed, centralized and made accessible to sales, marketing, product and senior management. All varieties of

customer interactions must be recorded and made immediately available to all business lines in order to present an accurate and current view of the customer. You can record attitudinal information about customers by conducting regular, impromptu surveys.

You can do this by integrating informal surveys into routine customer contacts, whether they be via e-mail, in-person meetings or contacts by your call center. This need not be a tedious or lengthy undertaking.

The Ultimate Question

The answer to one simple question can help direct your efforts to improve customer experience. Fredrick Reichheld, loyalty expert and author of *The Ultimate Question for Unlocking the Door to Good Profits and True Growth*, found that asking customers, “Would you recommend us to a friend or colleague?” can unearth keen insights into customer attitudes and help predict future behaviors. Going further to ask “why?” or “why not?” can reveal underlying attitudes and how your customers see you.

In his *Harvard Business Review* article, Gulati suggests that organizations move beyond structuring businesses into separate units of specialization. Instead, he suggests a model where employees use their knowledge and skill sets to combine products and services from multiple business lines to create a comprehensive solution to a customer’s needs.

To foster cross-boundary sales effectiveness, relationship managers need to transcend their current sphere of knowledge and experience. They can do this by rotating among the various business

lines and getting training in each line. A bank can further cultivate cross-boundary sales skills and experience by having meetings where relationship managers share their knowledge, experience, challenges and success stories. These client case studies, when documented in a centralized database, can be used by banks to fine-tune their product development and used by calling team members in developing innovative business solutions to present to clients and prospects.

Marketing can communicate value to customers across all business lines in a way that provides solutions regardless of business line. Product development can use the information to go beyond simply designing features to engineering better customer experiences and learning why customers use offerings as they do. They can also focus on what might be frustrating customers and try to uncover and even anticipate client needs that they may not have yet identified or addressed.

Aggregating Meaningful Data for a Single View of the Customer, Where to Begin?

A good place to find the most valuable customer information you already have may be within the records of your call center. Not only can this be the starting place for your new customer data bank, but reacting to its content can dramatically improve the customer experience.

By sharing and analyzing call center interactions with marketing, sales, product development and even senior management, you can pinpoint the service bottlenecks and information gaps that most often generate customer

calls. As a result, you can make constructive changes, resulting in happier customers and reduced call volumes.

Creating a Unified Customer Data Bank

Formatting the information with unified definitions and fields for interdepartmental use is called master data management (MDM). Without MDM, silos will persist, according to Gareth Herschel, Gartner's CRM Research Director. Herschel outlines each step in the MDM process:

- Assemble a cross-functional group that will own the initiative.
- Establish and define universal concepts, such as how you define customer, location, revenue and product.
- Pull, migrate and consolidate data into one customer integration hub.
- Collect insight about customers to establish optimal segmentation parameters

Finally, the cross-functional team must translate the value proposition of the master data to the entire organization, as all must be continually involved in keeping the data accurate throughout changes in the customers' lifecycle.

Establishing Customer Segments

It's ironic that elevating the customer experience requires more sharing of information among bank departments and business lines while simultaneously dividing customers and prospects into separate groups. Customers want relevance; to deliver it, you need to use

segmentation to treat different customers differently.

An effective segmentation model identifies distinct groupings of customers with similar characteristics. Initially, your segmentation process will start with whatever information you already have in your database. But with consistent effort you can quickly build on your customer profiles to where you begin to identify present and future client lifecycles.

According to Omniture, a provider of Web analytics solutions, the larger “buckets” of customer data might include information on demographic, psychographic and behavior. Demographics tell us who; psychographics tell us what they think and feel; and behaviors reveal the actions customers take as a result. This knowledge empowers marketing to create more relevant messaging and enables sales to better bundle services. In addition, it gives product development insights that enable them to anticipate and address client needs.

By understanding which products and services customers are using currently, you can predict what they’re most likely to need or value in the future.

By charting behaviors, you can develop customer models and extract “propensity to buy” scores. You might offer high-value customers open access to specialists in the contact center, or 800 numbers and access to advanced service features on the bank’s Web site.

Conversely, these customer models also can uncover profiles of customers most

likely to defect. Combined with an overlay of customer profitability scores, you may decide to migrate less desirable customers to less costly channels, or deter them with higher service fees. All of this enables you to lower operational costs for higher returns over the long run.

Strategies for Dismantling Silos

1. *Start from the top and work down*

Effective implementation of an integrated, customer-focused enterprise requires changes that originate at the top of a financial institution’s organization. In fact, in its 2007 white paper, Forrester Research suggests that reorganizing to create a more customer-based focus should be a priority initiative. Forrester warns that in order for such changes to succeed, it requires a multi-year commitment and buy-in from the CEO on down.

Fortunately, getting buy-in from the top may be getting easier. According to a May 2007 webinar presented by SourceMedia and the IBM Institute for Business Value, 65% of bank CEOs say they realize that extensive change is necessary to keep their organizations competitive. (These same bank CEOs also admit that most past attempts to reorganize around the customer have failed because of banks’ inability to generate collaboration across multiple business lines.)

2. *Obtain bank-wide buy-in*

Harvard Business Review concurs. In a June 2007 article in the *Harvard Business Review* (“The New Deal at the Top”), Yves L. Doz and Mikko Kosonen describe

how the role of CEO needs to evolve to keep companies competitive. Responsibility for corporate performance needs to be collective, rather than by individual business unit, they argue. They also suggest that companies implement the following practices and tools:

- Require interdependent unit heads to integrate a single corporate strategy across all units.
- Establish transparent performance metrics developed by top-level management. Such metrics specifically should not be left to be developed by heads of individual bank business units.
- Transition to a customer service model requiring overlapping experience and responsibility rather than unit-specific expertise.
- Require measurements of optimal outcomes that are value-oriented rather than results-oriented.

3. *Execute strategies to reorganize around the customer*

In *Managing Customers as Investments*, Gupta and Lehmann suggest several additional practices and tools in the effort to become more of a customer-focused organization:

- Creating more direct customer interaction for the CEO, including spending time on the phones in the call center.
- Recognizing customers in terms of their long-term potential and treating them as assets.

- Developing metrics that reflect customer value and tie incentives to those metrics.
- Initiating scorecards that measure customer satisfaction, churn and loyalty.
- Allocating resources according to customer groups rather than product groups. For example, rather than viewing marketing dollars as an expense, instead consider them an investment requiring a good return. And the approval process for all funding decisions should require an explanation of how the proposed spending will elevate the customer experience.

While it's hard to dispute the wisdom of harnessing collaborative thinking and action, CEOs will likely find it difficult to accept open challenges to their thinking and the subsequent loss of individual power. But it can be done.

At the 7th CRM Summit in February 2006, in Braselton, GA, Kevin Riley, Executive Vice President at KeyBank, described how his bank successfully reorganized around the customer by enlisting the CEO's sponsorship to drive the change.

Other top executives can also play an important role in enhancing an organization's customer focus.

4. *Define CFO's role in a customer-centric bank*

Loyalty experts suggest that the chief financial officer (CFO) should be responsible for measuring customers' lifetime value in dollar terms and using

While it's hard to dispute the wisdom of harnessing collaborative thinking and action, CEOs will likely find it difficult to accept open challenges to their thinking and the subsequent loss of individual power.

that value as a lens through which all expenses are viewed. Lifetime value figures provide an alternate way to forecast future cash flow and the overall value of the client relationship. Interestingly, an article by Joseph McCafferty in the May 2007 edition of CFO magazine discusses the merits of this long-term, return on investment over time approach.

McCaffrey notes how business groups and financial experts are exposing the long-term damage done to organizations by short-term thinking.

5. Clarify the role of the chief marketing officer

Chief marketing officers (CMOs) have some of the most difficult work in helping their companies become customer-centric. To attain the required intimacy with customers, all departments and persons involved in client contact need to work together. This shift in strategy represents nothing less than a revolution in most commercial banks where a culture of compartmentalization dominates.

Marketing benchmarks need to elevate beyond the traditional four Ps of product, place, promotion and price to also include calculations of return-on-investment that measure marketing spending's impact on customer acquisition, retention and loyalty—gaining a greater share of a customer's wallet.

6. Define the role of the customer relationship officer

New titles like Customer Relationship Officer (CRO) are emerging in response to banks trying to become more cus-

tomercentric. With its appointment of Kevin Riley as the bank's Client Information and Relationship Officer, KeyBank has become one of a number of banks creating senior level positions having authority and accountability for enhancing the customer experience.

Reorganizing around the customer is a major undertaking for most financial institutions, requiring a complete about-face from "business as usual." But for those who make the commitment to achieve a truly customer-focused organization, the financial rewards are significant and enduring.

Visit us at www.fpssc.com, e-mail us at info@fpssc.com, or call 847.501.4120 for more information. •

DRP offers bundled, personalized solutions priced to reflect the customer's current and predicted relationship value with the bank.

As your bank abandons the silo mentality and begins sharing information among business lines, you can more accurately measure the overall profitability of each corporate client relationship. You can do this by aggregating the profitability of all the different business line relationships the client maintains with your bank. Knowing the aggregate profitability of each client, your bank is far better equipped to offer incentive pricing—pricing that encourages your most profitable clients to expand their relationships while minimizing or eliminating relationships with clients that are marginally profitable.

The following story on Dynamic Relationship Pricing discusses this strategy in some detail.

Cross-Boundary Integration Enables Dynamic Relationship Pricing

While research suggests that customers are more sensitive than ever to price, discounting is not necessarily the path to profitability.

A 1% price cut must generate an increase in sales volume of at least 3.6% to be profitable. So, in most cases—according to Sunil Gupta and Donald Lehmann, authors of the 2005 book *Managing Customers as Investments: The Strategic Value of Customers in the Long Run*—there is no bottom-line benefit to cutting price.

Over the long term, a culture of discounting can erode your brand and increase customer price sensitivity. While lower prices provide higher value to the customer, they decrease the value of the customer to the bank.

Optimal pricing structure increases both the customer's value to the bank as well as the bank's value to the customer. Gartner Research has coined the term *Dynamic Relationship Pricing* (DRP) to describe a pricing strategy that achieves this win-win scenario.

Driven by the Total Customer Relationship

In its 2005 report, "Dynamic Relationship Pricing to Be Banking's Next CRM Strategy," Gartner describes DRP as "pricing that is both dynamic and driven by the total customer relationship."

While banks have been using dynamic pricing for some time—adjusting rates according to changing market conditions—Dynamic Relationship Pricing goes a step farther. It factors relationship profitability into pricing and enables adjustments to ensure that pricing and rewards are aligned.

DRP offers bundled, personalized solutions priced to reflect the customer's current and predicted relationship value with the bank. It also can take the form of fee waivers or other concessions based on the breadth and depth of the customer relationship.

In order to structure pricing in this way, customer relationship knowledge from the CRM system or other customer database must be linked to profitability and costing analytics. More importantly, sales, marketing and product must understand how this information translates into value for the client across business lines. For this reason, DRP can only be achieved by breaking down traditional informational and departmental barriers.

Gartner finds DRP pricing structure to be particularly beneficial to corporate clients: "Corporate and wealth clients will value the shared benefit of dynamic relationship pricing and will welcome the ability to control the cost of services by aggregating more business with one bank," its report says.

Aggregating the right customer data is essential to carrying out these kinds of cross-boundary initiatives successfully. Gartner cites three major challenges to implementing such initiatives:

1. Collecting meaningful customer data
2. Centralizing and formatting the data
3. Establishing customer groups by using segmentation

About the Publisher

Financial Publishing Services helps bank marketers strengthen client relationships, enhance brand loyalty and facilitate cross-selling opportunities in their corporate client communications.

Our professional writing team helps banks create customized newsletters, case studies, white papers and bylined articles in trade publications. Our technology team maximizes the effectiveness of bank e-communications, resulting in open and click-through rates double the industry average.

Visit us at www.fpssc.com, e-mail us at info@fpssc.com, or call 847.501.4120 for more information.