Reorganizing Around The Customer

A Year In Review For Bank Marketing

A Special Report From FPS THE EXPERTS in Loyalty-Building Financial Communications

Sponsored by Treasury Strategies, Inc.

2007 may best be remembered as the year of the customer in bank marketing circles. Converging market forces have caused financial institutions to rethink their strategies, reallocate their assets and reorganize their enterprise around their existing customers.

Banks Return To Retention Marketing

- Banks on average lose nearly as many customers as they gain
- It costs **five times as much** to acquire new customers as to retain current clients
- You can increase profits by 80% or more just by improving customer retention by 5%

Why the move toward retention?

Experts agree that the only way to sustainable profits for banks today is keeping the customers they already have.

Without acquiring a single new customer, you can increase your net profit by 80-95% just by keeping a small percentage of your current customers from leaving. Wells Fargo, who has had case studies written about their success in keeping loyal customers, found that reducing their customer defections 1%, brought in 20 million in net profits.

It's no surprise then that banks site customer loyalty is their number one challenge.

Loyal Customers Pay Big Dividends

On average, a company has:

- A 60% to 70% probability of a sale to active customers;
- A 5% to 20% probability of a sale to prospects.

Customer Winback: How to Recapture Lost Customers and Keep Them Loyal

Organic growth is the key opportunity for most financial services companies today ... developing deeper, more relevant and more profitable relationships with customers.

—Accenture.

Loyalty leaders grow, on average, more than twice as fast as the industry average across a wide variety of industries.

The Loyalty Effect

The average company has a 60 percent to 70 percent probability of a success sale to active customers; a 20 percent to 40 percent probability of a sale to lost customers; and only a 5 percent to 20 percent probability of a sale to prospects.

Customer Winback: How to Recapture Lost Customers and Keep them Loyal

Lifetime Value Of A Treasury Client

- Large corporate LTV: $509,000 per client.
- Middle market LTV: $45,784 per client.

Treasury Strategies
2006 Benchmarking Database

LTV=net profit over 8 years

Let's bring some real numbers to value of a typical commercial client.

Treasury Strategies estimates that a typical treasury client relationship lasts eight years. By taking the net profit of each client and multiplying it by eight years, you arrive at that client's lifetime value.

In the case of large corporate accounts that figure averages $509, 000. For middle-market accounts, about $46,000.

2,000 Middle Market Accounts

Factors: $5,723 value per client
13.5% acquisition rate
$300 acquisition cost per new client

12.5% churn
in three years: +$33,783

7.5% churn
in three years: +$675,982

Results:

Reduced customer churn =
$639,199 improvement in profits

To illustrate, let’s take a look at the actual numbers behind these churn and acquisition percentages. Assume you have 2000 middle market accounts.

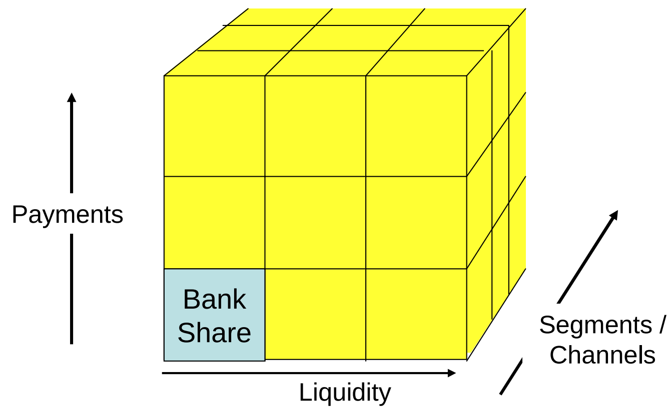
And each year your account list grows by 13.5%. Let’s also factor in the cost of those acquisitions. We’ll use a figure on the low end, of, say $300 per new account.

After three years, using that average churn rate of 12.5%, your net profit will have increased about $34,000.

Now, all things being equal, let’s see what happens when we reduce that churn rate to 7.5%. Your net profit has now grown to nearly $676,000.

Tremendous Growth Opportunity

Banks capture between 5% and 7% of the $1 trillion global spend in the financial supply chain.

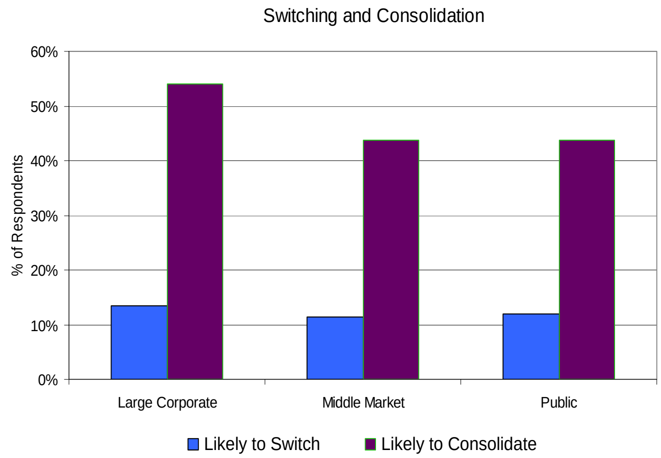


Source: Treasury Strategies proprietary analysis drawn from multiple corporate consulting engagements and research. Does not include spend on credit.

Treasury Strategies research shows that market forces are converging in such a way that there's an immense opportunity for banks to capture substantial market share.

Customer “Stickiness”

It’s far easier to gain business from existing customers than to acquire new customers.



Source: Treasury Strategies’ proprietary research

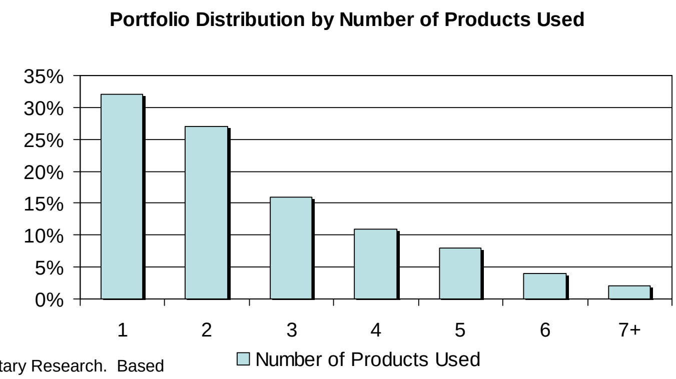
And most of that opportunity lies with expanding your relationship with your current clients.

Cross-Sell Opportunity

- Only 41% of relationships use **three or more products.**
- 32% of relationships use **only one product.** Each single-product-user is a potential cross-sell opportunity.

Product Categories:

- Account Services
- ACH
- Disbursements
- Information Reporting
- Reconciliation
- Sweep
- Wholesale Lockbox
- Wire Transfer



Source: Treasury Strategies Proprietary Research. Based on analysis of 10 U.S. National and Large Regional Banks.

With 32% of current clients using only one service at their primary bank, current clients are the most likely, longest lasting and most profitable target for new business.

Sales And Marketing Top Challenges

Yankee Group, 2006

Despite technology investments to accelerate the sales process, many companies are falling short of goals and expectations. In a recent poll, the top three challenges sited were increasing close rates, improve solution selling and increase contract value, or cross-selling.

Two-thirds of respondents to a poll taken of sales and marketing executives, are still struggling to make accurate forecasts and many are not able to maximize their existing sales automation technologies.

Sales Cycles Are Longer, Fewer Wins

With choices becoming increasingly complex, customers need help navigating the process and making quality buying decisions.

Yet new clients are increasingly difficult to acquire.

Your clients now have more choices to evaluate, causing delays in the purchase process.

Consider these statistics: (CSO Insights, Feb 07 webcast: 2006 statistics)

•More calls are required to close the deal

•Sales cycle timeline increased

•“No decision” rates are on the rise

•More decisions in the B2B arena are by committee

Clients need help with the increasing complexity, overwhelming choices in making quality buying decisions. This is where consistent thought-leadership from their financial partner forms bonds, shortens sales cycles and increases win rates.

The Changing Customer

What they need from their financial partner today

When asked, clients have said they want honest and objective thought leadership on strategic issues.

To be kept abreast of changing regulations and issues that affect their industry.

Access to succinct research and industry intelligence to help them be more competitive in their given marketplace.

Relevance Through Segmentation

High-Value Customers

- Advanced service offerings
- Attractive pricing bundles

Low-Value Customers

- Migrate to less costly delivery channels
- Deter them with higher service fees

Segmenting customers into groups having common needs and challenges empowers marketing to create more relevant messaging.

Segmenting customers into groups with common needs and challenges, empowers marketing to create more relevant messaging, enables sales to better bundle services, and gives product development the insights to intuit, anticipate and address client needs. The bank is also able to differentiate high and low value customers and allocate funds accordingly.

By understanding which products and services customers have are currently utilizing, predictions can be made for what they're most likely to need or value in the future. Customer models can be developed from charting behaviors and “propensity to buy” scores can be extracted. High value customers might be offered advanced service features, like 800 numbers, priority access to call centers, and access to advanced service features on the banks' website. You may want to offer them premium services at special bundled rates, etc.

Conversely, these customer models can also 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 in turn enables lower operational costs for higher returns over the long run.

Loyalty Based Pricing

In the long term, discounting erodes your brand and increases customer price sensitivity.

Source: Managing Customers as Investments, Gupta Lehmann, Wharton School of Business

Customers are more sensitive than ever to price. But discounting is probably not the answer to price-driven loyalty.

Experts find that even a 1% price cut must generate an increase in volume of at least 3.6% to be profitable. So, in most cases there is no bottom line benefit to cutting price.

Over the long term, a culture of discounting can actually erode your brand and increase all ready high price sensitivity. Price packaging on the other hand, may create mutual value.

Dynamic Relationship Pricing

Dynamic Pricing Strategies *to Date*

- Adjusts rates according to changing market conditions.

Dynamic *Relationship* Pricing Strategies *Now*

- Factors relationship profitability into pricing bundles.
- Enables adjustments to ensure that pricing and rewards are aligned.

Source: Gartner Research, 2005 report, Dynamic Relationship Pricing

In other words, lower prices provide higher value to the customer, but decrease the value of the customer to the bank. While an optimal pricing structure would increase both. A new pricing strategy to achieve this win-win scenario has been coined ***Dynamic Relationship Pricing***, by Gartner Research. In their 2005 report “Dynamic Relationship Pricing to Be Banking’s Next CRM Strategy”, Gartner describes this as “pricing that is both dynamic and driven by the total customer relationship…one that has the potential to be not only a differentiator but even an industry disrupter”

While banks have been using “dynamic pricing” for some time, as in adjusting rates according to changing market conditions, dynamic relationship pricing goes a step beyond. It factors relationship profitability into pricing and enables adjustments to ensure that pricing and rewards are aligned.

“Dynamic Relationship Pricing offers bundled, personalized solutions that are priced in a way that reflect that customer’s current and predicted relationship value with the bank”. It can also take the form of fee waivers or other concessions based on the breadth and depth of the customer relationship.

Technology And Good Data
Enable Dynamic Relationship Pricing

"Corporate and wealth clients will value the shared benefit of dynamic relationship pricing. They will welcome the ability to control the cost of services by aggregating more business with one bank."

Source: Gartner Research, 2005 report, Dynamic Relationship Pricing

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 have a high level of understanding of the meaning of this information, that transcends all business lines.

This could be particularly beneficial to corporate clients, who would value the shared benefit of dynamic relationship pricing and will welcome the ability to control the cost of services through aggregating more business with one bank.

Raising The Bar

Transcending Silos To Enable Optimal Value Creation

Dynamic Relationship Pricing is just one instance of how cross-boundary collaboration between departments can result in win-win for both you and your customers.

Transcending legacy silos to make it happen is nothing short of revolutionary for most financial institutions, but experts, like Forrester Research find that it's essential to bringing real value to the customer experience.

Key Steps In Breaking Down Silos

- Coordination
- Cooperation
- Capability Development

Source: May 2007 Harvard Business Review, *Silo Busting: How to Execute on the Promise of Customer Focus*, by Ranjay Gulati

But even the act of defining and segmenting profitable customers is nearly impossible for banks, due to disconnects in disparate information systems. So, "before they (banks) can achieve a customer focused organization, the legacy silos must be, if not obliterated, at least transcended."

According to a recent article in HBR, some of the key steps to succeed are:

•**Coordination.** Harmonizing information and activities across all business units.

•**Cooperation.** Through incentives, structures and allocations of power, all departments work together in the interest of customer needs.

•**Capability Development**. Develop skills to empower employees to deliver customer-focused solutions. And finally, reward those who succeed in busting through silos with creative incentives and desirable career paths.

Bridging Sales, Marketing and Product

- Customer databases are centralized and accessible by sales, marketing and product development departments
- Customer interactions with all departments feed into a single database of customer information
- Survey customers constantly—in person, on the phone and online. Aggregate responses in central database. Even a simple question can unearth a wealth of customer information. For example:
  - *"Would you recommend us to a friend or a colleague?"*
  - *"If there was one thing we could do to improve our value to you, what would that be?"*

Source: Gartner Research, 2007report, Who Owns Your Data?
Survey sample source The Ultimate Question, FredrickReichheld

The major challenge here is the lack of centralized customer data. It needs to be scrubbed, centralized and accessible to sales, marketing, product and senior management.

And it needs to be fed with continuous updates on touch points with clients of all types, to present an accurate and current view of the customer.

Fredrick Reichheld, loyalty expert and author of The Ultimate Question for Unlocking the Door to Good Profits and True Growth, found after years of research, that simply asking "Would you recommend us to a friend or colleague?" can unearth keen insights into customer attitudes and help predict future behaviors". A good follow-up question could be "If there was one thing we could do to improve our value to you, what would that be?"

These types of questions unearth underlying attitudes that are key indicators as to how your customers see you.

Moving Beyond Specialization

Staff must move beyond being specialists in their own "unit" to knowing products of multiple business lines and being able to combine these services to provide customized solutions that address unique client needs.

Source: May 2007 Harvard Business Review, Silo Busting: How to Execute on the Promise of Customer Focus, by Ranjay Gulati

Harvard Business Review, in a recent article titled, Silo Busting, How to Execute on the Promise of Customer Focus, suggests an even more radical diversion from from the business as usual model of banking. They suggest eliminating the various business units of specialization, into a fully interdependent system in which sales, marketing, product development and other staff have the knowledge and skill sets that span boundaries to assist customers with multiple products and services based on customers' needs.

This suggestion fits well with the Dynamic Relationship Pricing structure we discussed earlier. In this type of team sales environment, the customer wins by getting exactly what they need and the sales professional, in turn, is rewarded for the cross-product sale.

Cross-boundary sales skills are also honed by regular meetings among multi-line account managers to improve knowledge of unit offerings, identify and address challenges and share successes. These stories from the field are also documented in that central database, where marketing can discover more ways to bridge sales units to provide clients with solution-based business intelligence across business units. Product development can use the information to go beyond designing features to engineering better customer experiences.

Utilize Call Center Data

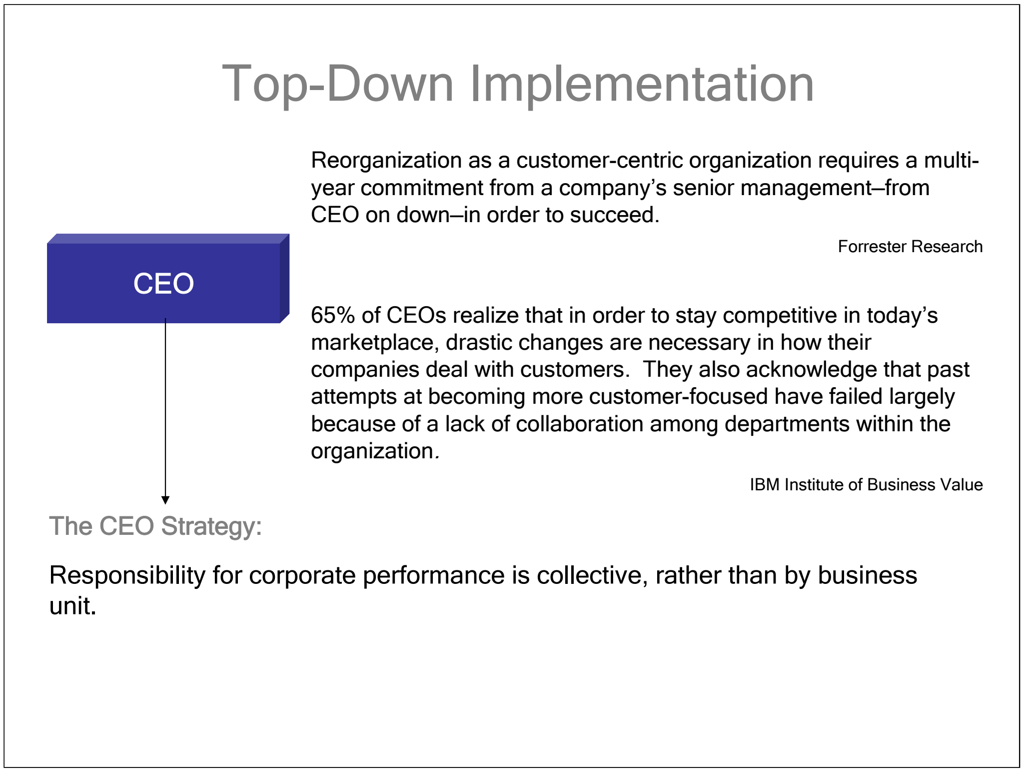
- Identify and record commonalities in customer problems, complaints and information-disconnects that take place at that initial point of contact.

RightNow Technologies Zero Contact Resolution

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 drastically improve the customer experience. By sharing and analyzing call center interactions with marketing, sales, product development and even senior management, you can pinpoint service bottlenecks and information gaps that most often generate the customer calls. You can use this business intelligence to drive the content of your outgoing messages to customers, and of the support materials you provide to customer-facing staff. For instance, you may find commonalities that uncover product issues, information gaps and other service bottlenecks that you can address in your existing client communications.

Preemptive striking your call center in this way has many advantages, including reduced operational costs, lower attrition rates, more customer referrals and a healthier bottom line.



Making this customer focused transition requires buy in and commitment all the way to the top. And getting buy-in from the top might be getting much easier. 65% of bank CEOs say they realize an extensive change is necessary to keep their organization competitive. Harvard Business Review concurs.

In the June article The New Deal at the Top, HBR describes how the role of CEO needs to evolve to keep their organizations competitive and make all employees accountable for the same bottom line results. Some of the steps toward collective accountability include:

•Establishing transparent performance metrics, that result from the strategic, collective dialogues of the top team, rather than the heads of disparate business units.

•Overlap core-competencies and responsibilities as a replacement for unit-specific expertise. Implement a value-oriented, rather than results-oriented measurement of optimal outcomes.

Employ Customer Accountability Measures

Additional suggestions include:

Having more direct customer interaction (including spending time on the phones in the call center).

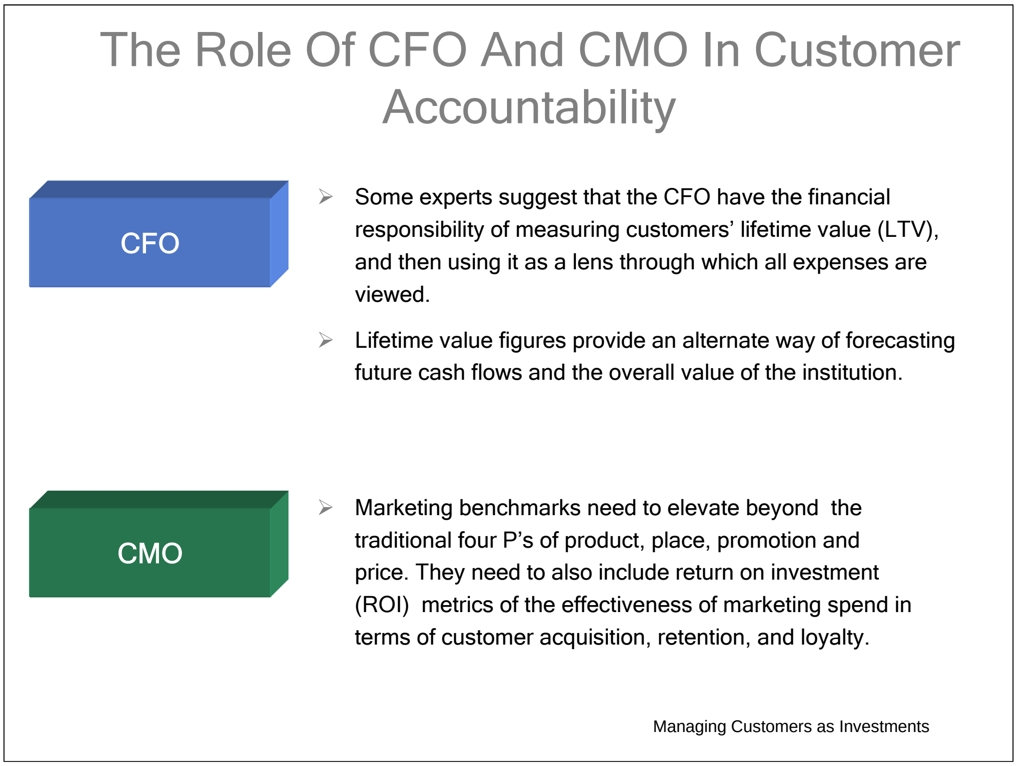
Officially recognize customers in terms of their long-term potential and treat them as assets.

Develop metrics that reflect customer value and tie incentives to them.

Keep customer satisfaction, churn and loyalty scorecards.

Allocate resources according to customer groups rather than product groups. (For example, marketing dollars are considered an investment requiring a good return, rather than an expense.)

And for all funding decisions, the addition to the approval process would require an explanation of how the proposed spending will elevate the customer experience.



Some experts suggest that the CFO have the financial responsibility of measuring customers' lifetime value, and using it 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 institution.

Interestingly, an article titled "The Long View" in the May issue of CFO Magazine, discusses the merits of this long-view, return on investment over time approach. For the first time business groups and financial experts like Warren Buffet are exposing the long-term damage done to organizations by short-term thinking.

CMO's may have some of the most difficult work to do in the process of reorganizing around the customer. To attain the required intimacy with customers, all departments and customer contacts need to work together. Marketing benchmarks need to elevate beyond the traditional four P's of product, place, promotion and price, to the return on investment metrics of spend against impact on customer acquisition, retention, and loyalty.

Marketing And IT In Collaboration

- Share customer intelligence across departments, so that all in your firm who have customer-facing positions also have "big picture" insights into who that customer is and what are its needs.

While sales and marketing need to collaborate to a greater degree, the same is true of marketing and IT. By sharing a strategic vision and direction, marketing and IT together will enable treasury to:

Go to market in new ways, by utilizing more interactive, rather than disruptive marketing channels, such as the solutions-based, opt-in messaging of newsletters and case studies. Giving clients choices in content ensures the messaging is relevant.

Access all data sources and then make sense out of customer data. Understand customer needs and approach them with the right message, in the right place at the right time.

Coordinate the customer experience, so that all who have touch-points with clients also have insights into who that customer is in terms of past history, buying cycles, etc.

The Transformation
… Are You Ready?

To succeed, Forrester recommends that the CMO and CIO define a five to ten year vision and then implement in one-year increments.

Questions to ask yourself:

- Does our marketing department report to a CMO?
- Does our CMO report to the CEO?
- Does my firm coordinate marketing activities across lines of business and channels?
- Does our marketing department have a strong strategic relationship with IT?
- Do we have a customer data warehouse that drives marketing campaigns?
- Does my company use data mining and predictive analysis tools?
- Do my marketing communications group help clients compete and succeed?

Source: Forrester Research

Forrester recommends that the CMO and CIO define a 5-10 year plan and implement in one year stages. Here are some of the questions you might ask yourself as you determine if you're ready for this transition:

Does our marketing department report to a CMO?

Does our CMO report to the CEO?

Does my firm coordinate marketing activities across lines of business and channels?

Does our marketing department have a strong strategic relationship with IT?

Do we have a customer data warehouse that drives marketing campaigns?

Does my company use data mining and predictive analysis tools?

Do my marketing communications group help clients compete and succeed?

Source: Forrester Research

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