

Absolute Profitability – Finding, Keeping, and Managing Profitable Customers

By Ginger Gagen

Possibly, more than any industry, the financial services industry is undergoing significant changes due to technology and a customer centric economy. Increased competition, more knowledgeable customers, and an increased use of the Internet are forcing Financial Services Companies (FSC) to identify new and better ways to find customers and service their needs. Financial service providers must be smarter and faster than the competition to succeed. The ability to offer an advanced array of products and services beyond the scope of traditional banking as well as the wide acceptance of the Internet as a distribution channel will change how we approach and sell to our customers.

As part of a FSC's CRM initiative, these companies should strive to find profitability in the lifetime value of a total household relationship. While others continue to focus solely on profitability driven CRM, I suggest they focus on managing the relationship and allowing the profitability to grow through the relationship driven desires of customers. Managing relationships opens the FSC to evaluate more than just account or customer profitability, it allows them to take loyalty and lifetime value into account when looking their profitability. While account profitability and customer profitability are important considerations they should not be viewed as the final determinants of profitability.

Through extensive analysis of the customer database at a household level, a bank will be able to identify major categories of household relationships and preferred level of service. If the bank does not have the expertise to do this type of analysis, most CRM solution providers offer services to help them extensively analyze their customer database. One group may be clients desiring high-touch service. This segment of customers is generally relationship driven and loyal. The bank may choose to assign a dedicated relationship manager to this group of profitable customers. The relationship manager is truly the professional financial advisor for the relationship-driven customer. Working with other advisors to develop financial plans and set goals and then marketing one-on-one, FSCs can set themselves apart from their competition. Using both face-to-face interaction and the wealth of information provided by a CRM software solution, FSCs could gain insight on this customer group.

Another group of households may have a more distant relationship with the bank. These banking customers tend to use electronic distribution channels such as the Internet, ATMs and direct deposit. They are likely candidates for additional services, but prefer to be informed consumers before taking the first step in the sales

process. This segment warrants special attention in marketing efforts. It is far more difficult to understand these clients and their needs. They almost never visit the financial institution, where a banker can easily build a personal relationship. This type of client must be very carefully analyzed and continuously made aware of appropriate products and services available to them. Newsletters, statement stuffers and when appropriate, telemarketing efforts help the FSC to reach this type of customer.

A third group could be convenience shoppers. This group should not be ignored based on today's profitability, but rather cost effectively nurtured by the FSC with an eye on providing value throughout a lifetime relationship to gain a sustained profitability.

Using CRM Technologies for Successful Telemarketing

This customer-driven philosophy coupled with the power of a CRM solution can make a substantial difference when creating a marketing campaign. The integration of customer data and transaction data allows FSCs to develop propensity models to market products to key customers driving stronger relationships. A "propensity to buy" model can be developed through a combination of linear regression of product components and customer demographics with a correlation between product types. Using cluster analysis, customers can be grouped together by identifying a common factor -- a high propensity to purchase a certain product. Segmentation aligned with product can then be achieved. Propensity modeling is a second screening process for marketing activity follow up.

Telemarketing is a great way to follow up on any marketing effort with the added benefit of increasing name brand awareness. Implementing a propensity model that assists in determining customers that would respond positively to a call from a bank representative makes telemarketing more efficient and manageable. Calling customers enhances the ability to provide additional consultations, thus providing the opportunity to introduce additional products and services as well as explain the product being marketed. The purpose of the propensity model is to reduce the number of calls a bank representative has to make while dramatically increasing the number of positive responses from those calls. Essential to developing the model is the ability to get vital customer and transaction information, including measurement of loyalty to a bank based on household relationships. A recent client in using this type of strategy was able to achieve more than an 8% positive response. Additionally they were able to sell a large number of non-traditional banking services. They attributed this success to the finely focused calling list derived from their CRM database analysis and a propensity model.

Once targeted, customers are scored using the propensity model, calling sheets can be generated and electronically distributed to the relationship managers who will be responsible for the telemarketing calls. Having put in the extra effort before making calls, the FSC should realize better response rates, enhanced profitability, and stronger customer satisfaction.

Having a philosophy of managing relationships and the use of a comprehensive CRM solution to implement marketing and sales initiatives allows financial services companies to find, keep and manage customers who value relationships.