

Customer Segmentation and Profitability

Building Loyal, Profitable Customers

SOLUTION PAPER:

FINANCIAL SERVICES



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ABSTRACT

FINANCIAL INSTITUTIONS HAVE BEGUN THE PROCESS OF RECOVERY, AND ARE CAUTIOUSLY LOOKING FORWARD TO FUTURE GROWTH. WITH SLOW BUT CONTINUED GROWTH IN THE HOUSING AND JOB MARKETS, FORECLOSURES AND BANKRUPTCIES REMAIN HIGH PUTTING A CONTINUED STRAIN ON THE INDUSTRY. ADD TO THAT, NEW REGULATORY OVERSIGHT REQUIRES FINANCIAL INSTITUTIONS TO STRENGTHEN BOTH CONTROLS AND COMPLIANCE REPORTING. AS THE RECOVERY CONTINUES, FINANCIAL INSTITUTIONS LOOK TO IMPROVE BOTH THEIR EFFICIENCY RATIO AND CROSS-SELL AND UP-SELL OPPORTUNITIES, WHILE INSTITUTING SUCCESSFUL PROCESSES TO BRING AND KEEP CUSTOMERS ONBOARD. IN EACH OF THESE CASES, THE KEYS TO SUCCESS ARE TO GROW REVENUES AND DEPOSITS WITHOUT ADDING EXPENSE, ALL WHILE OBTAINING AND EXTENDING CUSTOMER SATISFACTION AND LOYALTY.

FINANCIAL INSTITUTIONS MUST DEAL WITH YET ANOTHER ASPECT OF THE ECONOMIC FALLOUT – CUSTOMER SATISFACTION. THE GLOBAL BANKING LANDSCAPE HAS BEEN FOREVER CHANGED BY THE CREDIT CRISIS, LEAVING ISSUES OF TRUST, CUSTOMER ATTRITION, BRAND LOYALTY, AND THE RESULTING REVENUE DECLINES TRAILING IN ITS WAKE. TO ENSURE SUCCESS, FINANCIAL INSTITUTIONS, WHILE MARSHALLING RESOURCES TO RAISE CAPITAL AND CUT COSTS WHERE POSSIBLE, MUST NOT OVERLOOK THEIR LIFEblood – ONGOING ACQUISITION, OPTIMIZATION, AND RETENTION OF CUSTOMERS. THE BOTTOM LINE IS THAT FINANCIAL INSTITUTIONS MUST IMPROVE THE CUSTOMER EXPERIENCE TO KEEP CUSTOMERS HAPPY, SATISFIED, AND LOYAL.

TO SECURE AND BOOST CUSTOMER RETENTION, WHILE MAINTAINING SUCCESSFUL RELATIONSHIPS, FINANCIAL INSTITUTIONS MUST FIND NEW AND INNOVATIVE WAYS TO COMMUNICATE WITH CUSTOMERS. ADVANCES IN TECHNOLOGY HAVE FORCED INSTITUTIONS TO IMPLEMENT A WIDE RANGE OF COMMUNICATION VEHICLES – FROM WEB, MOBILE PHONE, AND EMAIL, TO TEXT MESSAGES AND SOCIAL NETWORKING SITES – DEPENDING ON THE CUSTOMER'S PREFERENCE. FINANCIAL INSTITUTIONS MUST EMBRACE, IMPLEMENT, AND TAKE ADVANTAGE OF THESE VARIOUS TYPES OF CHANNELS TO SUCCEED IN TODAY'S NEW CUSTOMER-DRIVEN ENVIRONMENT.

FINANCIAL INSTITUTIONS MUST IMPROVE THE CUSTOMER EXPERIENCE TO KEEP CUSTOMERS HAPPY, SATISFIED, AND LOYAL

Overview

While most consumers need a banking relationship, the top 25% of customers account for nearly all of a financial institution's profits. Financial institutions require reliable ways to identify revenue potential, assess needs, personalize cross-sell and up-sell activities, build loyalty, and offer convenient, effective service to the targeted, high-yield accounts. Fortunately, financial institutions can employ these same tactics to the remaining 75% of accounts to help build effective relationships that match both the bank's and the customer's needs. In other words, the less profitable accounts require highly automated interactions, while the high-yield accounts benefit from differentiated and better levels of service.

As financial institutions have come to realize, unprofitable customers can be classified into the following three groups:

- Unprofitable due to lack of profitable relationships
- Unprofitable due to improper charging or inappropriate servicing channels
- Truly unprofitable

To avoid the unprofitable pitfalls, financial institutions must implement processes and tools that enable them to capture higher wallet share, migrate customers to more cost effective channels, and properly identify customers to be de-marketed or divested.

To maintain a profitable relationship while driving the potential for sales, financial institutions must not only gain a true understanding of their customers, but they must also peer into the proverbial crystal ball to anticipate their needs.

Understanding the Lifecycle of a Customer

The customer lifecycle can be divided into three functional areas – acquire, optimize, and retain.

The acquisition phase consists of market research, marketing, and customer onboarding. It is critical for financial institutions to maximize the relationship with the customer. Acquisition is the opportune time to determine not only the best customers, but what they need and how to cross-sell. In fact, activities performed in the first 90 days, which is the time period that defines onboarding, are paramount to the success of the customer relationship.

Next is the optimization phase, which consists of customer profitability, event-based marketing, cross-selling and up-selling, and channel network optimization. After the 90 day onboarding period, it is important to determine how to maximize and optimize networks and processes, and create/deliver relevant, cost-effective communications to best serve those customers and keep them loyal.

The final phase, the retention phase, entails implementing effective retention and rationalization programs based on accurate customer profiles. It is advantageous for financial institutions to fully understand the identities of their two types of customers - their best and their less-than-best. These two customer groups are easily differentiated – the best are the high-yield clients that the financial institutions strive to retain, while the less-than-best are those low-yield, high-maintenance clients that the financial institution would benefit from divesting. As mentioned earlier, the top 25% of high-yield accounts and the remaining 75% of less profitable accounts can benefit from the same set of processes and relationship building. In fact, instead of only focusing on the high-yield accounts, financial institutions must innovate and look for ways to turn low-yield accounts into profitable accounts.

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Customer Profitability and Segmentation Challenges

To ensure successful and profitable relationships, financial institutions must understand their customers, anticipate their needs and requirements, and drive sales. To accomplish these objectives, institutions must be able to answer the following, all-important questions:

- Who are my best customers?
- What products and services do they require?
- How do their product needs vary across regions and branch trade areas?
- How can I package products, based on these needs, to maximize value and corresponding fee revenue?
- How can I cultivate a better relationship through communication?
- Which communication channels do they prefer?

These questions represent the fundamental challenges faced by every financial institution looking to successfully implement a customer profitability and segmentation process. To get answers, institutions must address the following four areas:

- Identifying and understanding the customer – both at the macro/trade area level and the individual consumer level
- Maximizing customer potential and profitability
- Personalizing customer communications
- Delivering targeted communications

Additionally, financial institutions must be prepared to answer two more questions, “Do I know the identity of my customer?” and “Can I validate that identity?” These answers are essential to minimize fraud losses and to comply with today’s stringent governmental requirements. Financial institutions that implement automated solutions

to ensure clean and validated customer data, place themselves in the best possible defensive position by knowing and validating their customer’s identity.

Identifying and Understanding the Customer

Financial institutions begin the customer profitability and segmentation process by gaining a full 360° view of their customers with clean, accurate data. This is critical as they must learn how to uncover and then maximize their most valuable asset: tremendous amounts of customer information. Securing this foundation is necessary not only to successfully identifying the customer through accurate data, but by understanding their needs and preferences. Clean data is the essential first building block upon which a successful strategy is built.

To get clean, high-quality customer data, financial institutions must start by matching and consolidating existing data into a single, comprehensive customer record. This can provide the insight needed to enhance customer loyalty and lifetime value. Processes used within a customer segmentation and profitability solution can take a myriad of information from multiple customer touch-points; update, link, and consolidate the data; secure identification and compliance; then transform the information into enterprise-wide business intelligence.

Down the line, this rich customer information can help financial institutions reap further benefits such as:

- Increasing customer loyalty through targeted communications
- Generating revenue with more effective cross-marketing, cross-selling, and up-selling
- Boosting campaign effectiveness through consolidated customer profiling and householding
- Reducing marketing costs by eliminating redundant mailings

ANALYTICS, SPECIFICALLY PREDICTIVE ANALYTICS, UTILIZES LOCATION INTELLIGENCE TO PREDICT CUSTOMER BEHAVIOR

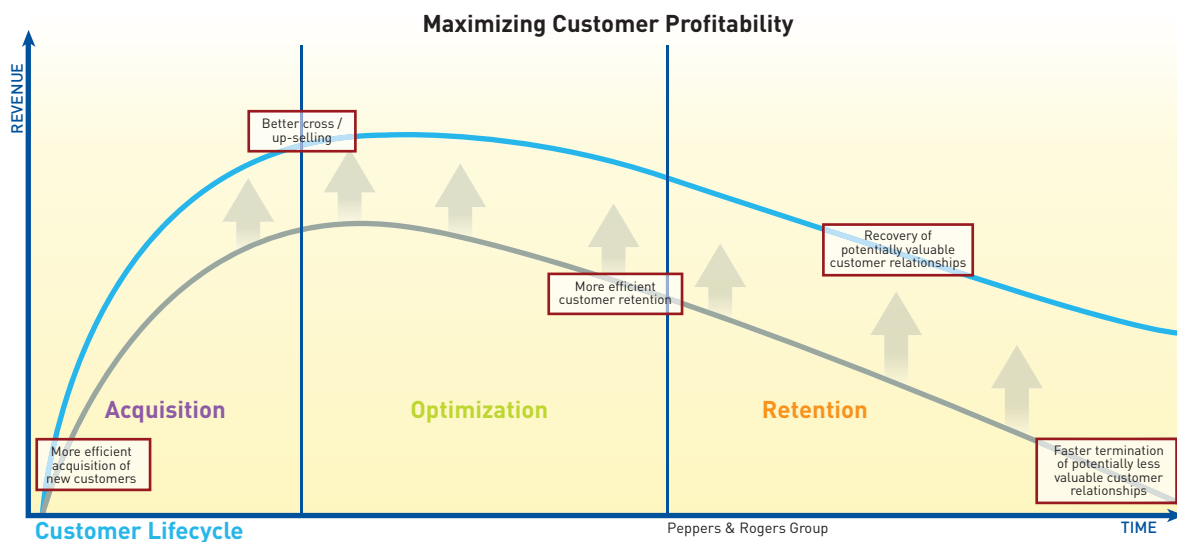
Maximizing Customer Potential and Profitability

Once a financial institution has identified their customers and ensured the accuracy of their customer data, the next step is to maximize each customer's potential and profitability. This is a critical step, as it not only identifies and rewards the best and most profitable customers, it, at the same time, highlights the customers who would benefit from relationship expansion, product and service migration, or divestiture.

To garner this insight and information, financial institutions must implement a solution that employs both analytics and segmentation. This combination helps institutions determine customer needs and behaviors, and aides in increasing customer value over time.

Analytics, specifically predictive analytics, utilizes location intelligence to predict customer behavior. By employing proven predictive analytic methodologies, financial institutions can:

- Gain unparalleled insight into markets
- Attract more profitable customers
- Maximize investments in sales and delivery channels
- Secure a competitive advantage in the marketplace
- Distribute branches more effectively
- Align branches with defendable strategic performance goals rooted in real-world customer behaviors and comprehensive market data
- Explore and quantify potential opportunities before making the critical decisions that impact the bottom line



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With clean, accurate data, financial institutions can now begin to get a 360° view of their customers. A detailed, chronological roadmap that focuses on predictive analytic models will help financial institutions:

- Optimize distribution networks
- Define untapped opportunities and maximize branch performance through a better sales goal-setting process
- Analyze and visualize market opportunities for sales planning activities
- Identify the next best purchase and profitability for individual customers or new prospects

Additionally, to identify how best to serve the most profitable customers, financial institutions must implement a distribution strategy. This strategy helps determine and utilize the communication vehicles preferred by customers, while optimizing sales and forecast capabilities.

To benefit the financial institution and the customer, simultaneously, these analytics and segmentation solutions must run in the background, integrating powerful analytics and analyzing data at the first point of contact - data entry.

Personalizing Customer Communications

Having successfully implemented the processes needed to obtain clean, accurate customer data, and maximize the customer's potential, the next step is for financial institutions to implement capabilities that enable effective marketing. This includes educating the customer on the next best sell, and the benefits of mutually beneficial transaction channels through personalized and targeted communications. These effective, cost-efficient communications provide customers with the right message, via the right channel, delivered at the right time.

These targeted customer communications are vital elements to providing quality service, boosting the customer experience, and improving loyalty and retention rates.

But, delivering personalized communications requires more than just manually tailoring a standard document template. Financial institutions benefit greatly by implementing an automated customer communication management (CCM) solution to leverage the insights made available from segmentation.

An effective, enterprise-wide CCM solution includes four types of communications – high volume, on-demand, interactive, and multi-channel delivery.

- High volume communications are normally processed in batch, pushing high transaction rates
- On-demand communications are created with available external data, and delivered in real-time via web services
- Interactive communications are individualized, ad-hoc documents that require real-time information and a human touch to complete

The fourth step in the CCM solution is not a type of communication, but a method of delivery. The ability to offer customers multi-channel delivery is critical in the quest to achieve the utmost satisfaction. Delivery method preferences vary significantly from customer to customer, so ensuring that processes are in place to deliver communications via traditional print/mail, email, SMS, and fax, is important for financial institutions. Creating communications plans by customer segment allows high customization to meet the preferences of high-yield customers, while financial institutions can use a less expensive approach to communicate with their low-yield customers.

By employing the right solutions, financial institutions can enable one-to-one marketing by composing, delivering, and coordinating their choice of print, electronic, email, or mobile marketing campaigns through a central source. Institutions can maintain brand consistency across channels, reduce duplicate efforts, and most importantly

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increase the ability to provide customers with the personalized financial guidance they desire.

Delivering Targeted Communications

As the final aspect of the customer segmentation and profitability solution, it is important to understand how enabling technologies, empowered by a 360° customer view, will improve the delivery of targeted communications.

Direct mail contact with customers via monthly statements and account updates can, of course, create huge postage and mailing expenditures. But by having targeted communications that utilize clean customer data, financial institutions can enhance marketing response rates, drive mailing efficiencies, and reduce related costs. In addition, insert, pre-sort, and delivery solutions can increase efficiencies, improve customer communications, and maximize postal savings.

Ultimately, financial institutions can use their data to better target marketing campaigns, sending finely honed messages to customers via their preferred channels - be it print, online, email, or SMS. Not only will the marketing message be delivered, institutions can alert the right departments and sales staff when customer communications are received, enabling appropriate and timely follow-up.

Together, these capabilities ensure cost-efficient delivery of the very messages that will optimize both customer satisfaction and loyalty.

Pitney Bowes Business Insight Leads the Way

Pitney Bowes Business Insight offers an end-to-end solution that helps maximize customer segmentation and profitability insight and efforts. Pitney Bowes Business Insight offers solutions - from both a technology and consulting perspective - to help every step of the way.

Pitney Bowes Business Insight is the leading provider of location intelligence and predictive analytic solutions for financial institutions worldwide, with more than 20 years of experience delivering solutions specifically tailored to the financial industry. More than 150 different financial institutions currently rely on our expertise, enabling the implementation of successful and effective customer segmentation and profitability solutions.

Pitney Bowes Business Insight's innovative solutions provide financial institutions with the insights needed to make more informed decisions on critical aspects of the business - exactly what is needed in the never-ending quest for sustained profitable growth and customer satisfaction.



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