

METAVANTE WHITE PAPER

# The Case for Customer-Focused Banking: Moving to the Next Generation of Customer Relationship Management

**Barbara S. Erskine and Michael J. McGinty**  
Senior Retail Consultants



1-800-822-6758

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## Beyond CRM

In the late 1990s, financial services companies perceived customer relationship management (CRM) as the “great salvation,” the differentiator that would permit a practitioner to stand head and shoulders above the competition. By the early 2000s, this concept had been dismissed as “hype” with its inability to generate the performance results projected. However, financial institutions that were able to plan, construct, and execute a customer-focused strategy have found these results to be true.

This paper details the “hows” and “whys” of managing customer relationships effectively and profitably. It is based on the synergistic relationships between the components required for a successful customer-focused program. A shortfall in any one of these components can doom the program to sub-optimized results and even failure.

## Why Customer-Focused?

So why should banks pursue a customer-focused approach to banking? The rationale for pursuing such an initiative is no different than that of 15 years or so ago. Figure 1 portrays the realities about value creation and revenue growth opportunities for financial institutions.

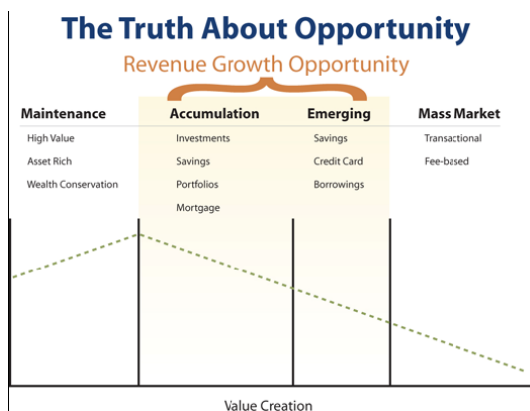


Figure 1

<sup>1</sup> “CRM Metrics and the Myth of Benchmarks: How Smart Banks Measure Success”, Kathleen Khirallah, The Tower Group, July 2004.

On the far right, the Mass Market is exemplified by transactional rather than relationship-orientated consumers. Revenue opportunities exist in terms of fee-based services.

However, revenue opportunity is impacted by the commodity nature of these services, limiting price and hence, opportunity. In this segment, price in excess of the prevailing rates will drive consumers to the competition. The revenue opportunity, regardless of the market in which any institution operates, is finite.

On the far left, the Maintenance segment is, for the most part, focused on preserving the wealth and assets already obtained. Members of this segment represent those high-value customers and relationships that an institution must continue to nurture in order to retain. Granted, portions of this segment present opportunity for revenue growth through programs aimed at “snow birds” and the like, but for the most part, this group is focused on wealth conservation. High revenue is generated in this segment, but many of the relationships have been relatively cemented. Acquisition is difficult and costly, and, as a result, opportunities for revenue growth are limited.

The vast majority of revenue growth opportunity lies within the two remaining segments – the Emerging and Accumulation groups. These segments seek savings and investment vehicles, credit and borrowings, and financial advice from the simplest to the most complex. The cultivation of these key relationships through the targeting of appropriate products and services is where the relationship and resulting revenue opportunity lay.

The problem is that virtually every competitor is seeking this same target audience. Considering that most members of the Emerging and Accumulation segments have upwards of three to six relationships with different financial providers, the primary obstacle is how to differentiate yourself from the competition in order to accomplish the primary mission of “stealing” these other relationships.

Effectively managing and influencing these customer relationships does provide an opportunity for differentiation. Differentiation creates a greater share of wallet, increases customer loyalty, and fuels relationship growth, which results in improved revenue and an enhanced bottom line.

## Relationship Management Defined

*“You can’t solve current problems with current thinking because current problems are the result of current thinking.” Albert Einstein*

Albert Einstein is recognized as one of the premier scientific thinkers of all time. What is sometimes overlooked is how insightful he was beyond the scientific, into the human condition itself.

Past CRM efforts, particularly unsuccessful ones, focused on methods, systems, or programs, yet ignored the synergy required among all the parts. Rather than a method, system, or program, we submit that successful customer-focused efforts are defined as:

*“A customer-focused business culture that allows organizations to understand and influence customer behavior which in turn enhances the company’s revenues.”*

To achieve this culture and generate the financial results expected requires the synergistic melding of four elements:

1. Organizational culture
2. People
3. Processes
4. Technologies

Figure 2 portrays the synergistic relationship between these components. The ability to foster and grow an effective customer-focused business culture directly influences the ability to produce financial growth. Any shortfall in executing any of the four elements negatively impacts the results of a customer-focused initiative.

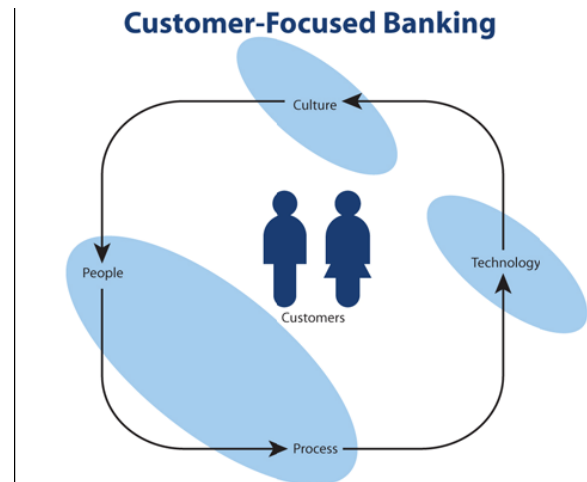


Figure 2

## Organizational Culture

Establishing the right culture is the first important component. Culture is comprised of the attitudes, beliefs, and behaviors resident within the organization (Figure 3).

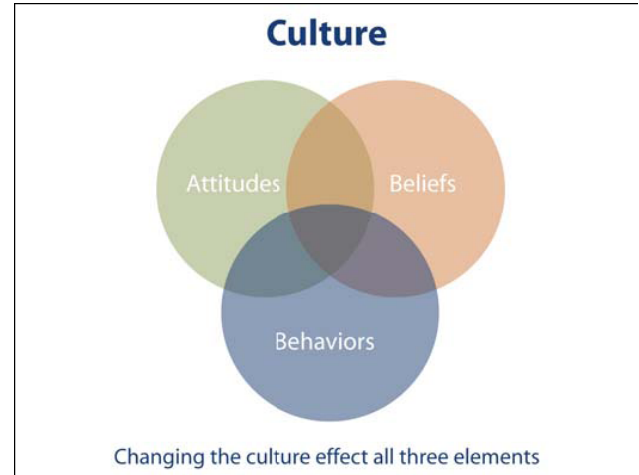


Figure 3

Culture is an amalgamation of how employees

- View co-workers, customers, and opportunities (Attitudes)
- Judge co-workers, customers, and opportunities (Beliefs)
- Act toward co-workers, customers, and prospects (Behaviors)

An organization that views and judges the above concept in a positive manner results in proactive and value-producing actions. Such an institution is positioned well for a successful effort. Organizations experiencing issues with any of these components must support and foster change within the prevailing culture to achieve success.

It is important to keep in mind that any and all changes to people, processes, and/or technology will take 18 to 24 months before they become an inherent part of the culture. During that period, organizations typically become internally focused. Therefore, it is equally important to emerge from that timeframe with clear goals for departments, branches, and individuals. You also need to develop supporting sales plans for improving the balance sheet customer by customer, thereby improving revenue. While the culture may be in place within 18-24 months, without strong leadership, the focus on customer acquisition and expansion cannot be successfully maintained. The sales plans, execution of the strategies and tactics, and supporting compensation plans are critical to the success of producing the desired balance sheet and revenue improvement.

## People and Processes

The second and third elements are intertwined as shown in Figure 2. The encirclement of People and Processes exemplifies the cause-effect relationship between the two

- good people + good processes = good results
- good people + poor processes = mixed results
- poor people + good process = bad results
- bad people + bad processes runs one out of business

Two basic questions arise from this relationship:

- “Do we have the right people with the right skills in the right places?”
- “Do our processes inhibit the ability of our people to perform or make it difficult for customers to do business with us?”

The People element of the equation creates additional questions that gauge an organization’s starting point within the process for creating customer-focused banking.

- “People drive the processes but what drives the people serving customers and prospects?”
- “Are the skills necessary to be successful in identifying, assessing, and meeting customer needs and expectations present in our people?”
- “Have we provided our people with the training and tools to be successful?”
- “Do our people understand how we know when we are successful?”

Often, as people need to change, so do the processes. The objective is to eliminate the “things and clutter” that get in the way of focusing on the customer. Streamlining and improving processes enhances the ability of staff to concentrate on identifying customer needs and growing these relationships

Major initiatives encompassing the People and Process components typically require:

- Assigning customer relationships to staff
- Removing operational barriers
- Establishing customer service standards
- Establishing targets for sales and service
- Developing branch and individual sales plans by quarter
- Examining what you expect – “What gets measured, gets managed”
- Recognizing and rewarding performance – “What gets into the incentive plan gets accomplished”

Residing in the output of the People and Process relationship is profitability – “are we producing profitable results?” In addition to keeping score, it is critical to measure and analyze the profitability of the bank or branch, each product, each customer, and each household relationship. Establishing stakes in the ground for each of these prior to any initiative and measuring the effect of the effort over time ensures the basic focus remains on results.

## Technology

Customer-focused efforts can be successful without an iota of technology. Fiction? Not at all.

Spend time in any small community bank in any small town in America and you will see the very best in customer-focused banking. Customers are known down to the last detail of their lives - most likely because the banker has known them all of their lives. And, because of this level of customer knowledge, the banker is typically empowered to act across a whole realm of authorities.

Unfortunately, as banks grow in size and span multiple markets, this level of customer knowledge is lost. As a result of size and/or geographic distribution, most banks do not have the luxury of obtaining this level of customer knowledge. Technology helps fill this void, and very effective technology will take you beyond.

Banks typically possess some natural advantages in the amount of customer information available to them when compared to other industries. The products and services banks market provide for the gathering of a significant amount of information on their customers. The mere act of opening an account gathers far more information about a customer than a retailer might gather when a piece of clothing is sold. Unfortunately, many banks fail to mine this information.

In addition to basic information on customer name, address, etc., core system reports can provide insight into customer holdings and financial services “buying or spending” habits, including:

- Current deposit and loan by balance
- Large deposits/withdrawals
- New accounts/closed accounts
- Maturing CDs and loans
- ACH reports
- Internet banking new customers/usage
- ATM/debit card usage

This information is further enhanced by customer data gathered during the opening of accounts or at the initiation of a lending relationship. Typical sources of such data are:

- Financial statements
- Tax returns
- Credit bureau reports
- Profile forms

This data can be further refined or enhanced by manipulating:

- Customer data collection
- Customer and product profitability
- Marketing campaign results
- Appended demographic and segmentation information
- Suggested products and services based on known customer habits

The application of specific technological tools often supplements the internal efforts of gathering and disseminating customer information to the appropriate sales force. Basic systems and functionality often center on:

- Contact management
- Pipeline and referral management
- Incentive compensation tracking
- Pricing “what ifs”
- Automated sales prompts of appropriate products and services

## Customer-Focused Banking Creates Significant Results

Effectively managing and influencing customer relationships provides a way to differentiate your institution from your competition. Such efforts create a greater share of wallet, increase customer loyalty and

growth, and result in improved revenue and bottom-line earnings.

Clearly, we are advocating and describing a sweeping change in the corporate culture of an organization. The decision to embark on a strategy that includes all the components discussed must be embraced by the entire management team, including a bank's board of directors. The components include a strong focus on all elements of the day-to-day business; people, process, and technology. The outcome of such an undertaking yields true customer loyalty and opportunity for improved profitability.

Technology is an enabler in creating a customer-focused bank, but as this paper points out, it is just one facet of an overall transformational program. Banks need to consider this type of action in order to compete in the 21st century. As Oliver Wendell Holmes articulated so clearly, standing still is not an option.

*"The great thing in this world is not so much where we stand as in what direction we are moving."*

*Oliver Wendell Holmes, Sr.*

## For More Information

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