From shareholder value to customer value

Management according to anticipated customer returns is now possible using new analytical CRM techniques

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Any financial institution is ultimately assessed according to its profitability. However, commercial departments are seldom managed with a view to making profits, but on the basis of turnover or costs. Translating profit objectives into concrete activities directed at the customers themselves has been regarded as too difficult or time-consuming. Until now, that is.

Cost reductions are finite

Financial institutions have been able to increase their profitability primarily through cost control: process automation, branch closures and greater use of the more efficient channels such as the call centre and electronic banking. This approach was implemented some time ago. It would now seem to have run its course, in that there remains little financial advantage to be gained. Yet there are opportunities for financial institutions to direct their activities with an eye to the individual customer, thus increasing profitability for both the customer and the company.

Conditions

The background and possibilities of Customer Relationship Management are regularly discussed in *Banking Review*. Financial institutions have considerable information concerning their customers, providing plentiful opportunities to gain a greater understanding of the client base as a whole. One example would be a refined segmentation of the client base according to current customer value combined with potential customer value.

The information held is also valuable as a predictive tool in that it reflects consumer spending and investment behaviour. Such information can be analysed and the results used to aid sales of new or additional products. This predictive aspect is particularly useful in enabling customer-specific offers to be made. However, an essential precondition is that the data analysts produce results which are readily accessible to marketeers and managers, who must then be able to use those results immediately in their customer contact.

Examples of such analyses include the customer profile in which the customers most likely to be interested in an endowment investment policy are pre-selected, or a list of names and addresses of those customers most likely to respond to a 'green' investment fund proposal. In order to increase profitability by means of this 'customer-directed' approach, a number of conditions must be met:

- Every promising contact with the customer (through any channel and at any time) must be identified and exploited. In other words, there must be a multi-channel approach. After all, today's customer makes contact with his financial institution from any location and at any time. During the contact, it is extremely important that the customer's attention is maintained. This can be achieved by tailoring the message or advice to his own personal wishes and requirements.
- Product-oriented or campaign-oriented managers with turnover targets at product level should give way to those serving a specific client group or segment, the aim being to increase the *customer value* of the client group.

The translation of knowledge into activity

Even where these two conditions have been met, the concept of 'managing according to customer profitability' will not yet be in place. Often, the missing factor will be a translation of the information concerning customers with greater potential for profitability into concrete actions directed at those customers. A crucial point is therefore the manner in which financial institutions adopt the 'customer-directed' approach in their day-to-day sales and marketing activities, thereby improving the returns for the company. In practice, this becomes possible through:

1. Approaching those customers with the greatest profit potential. Whenever the marketeer takes a decision to initiate a campaign or customer contact, he must have immediate access to information concerning such factors as the likely costs of the contact, the anticipated revenue, the potential customer profitability and the total profit contribution of the contact. These factors can be calculated on the basis of underlying predictive models.
2. Offering the products with the greatest returns. Here, it is necessary to calculate all relevant factors in advance and to give priority to the sale of these 'high-return' products. During the customer contact, the high-return products can then be offered 'at the expense' of another product. The priority assigned to a product must apply through all channels to ensure that the same personal offer is made to the customer, regardless of the form of communication chosen. Furthermore, general principles such as making only one offer per month must also be observed.
3. Making best possible use of inbound call centre contacts. All too frequently, the call centre is regarded as a service channel devoted to dealing with customer queries. Given appropriate CRM techniques, it becomes possible to 'convert' a service call into a sales opportunity. This sales opportunity will result in revenue, whereupon the time spent in selling can be charged on to the marketeer, and re-investment made in extra call centre personnel. In other words, the standard of service will remain constant while this channel also contributes to profit through its generation of turnover.

Profitable 1-to-1 customer relationship

The opportunities described above demonstrate that the gulf between shareholder value and customer value can indeed be bridged. The promise of maintaining a profitable 'one-to-one' relationship with the customer will also be seen to have been kept. The examples below demonstrate that direct management at customer level offers valuable opportunities and can be extremely profitable.

Example 1: *Outbound mailing to customers with highest profit potential*

Let us suppose that a bank sends out 150,000 mailshots for a specific savings policy product each year. The average take-up rate is 1.5%, representing an average anticipated profit of NLG 3,000 per contract over a ten-year period. A total of 2,250 policies are sold. The total contribution to profit is therefore NLG 6.8 million.

By producing a model to select the customers with highest profit potential, this total contribution to profit can be significantly increased. For example, with a take-up rate of 2.5% on a mailing of 100,000, there may be 2,500 contracts sold. The anticipated profit is also higher, at NLG 3,500. The total contribution to profit will then be NLG 8.8 million (over a ten-year period), being NLG 2 million greater than in the previous scenario.

Example 2: *Converting inbound call centre queries into sales opportunities*

Let us suppose that a call centre uses CRM techniques to identify the contacts with greatest sales potential. The call centre agent is automatically notified and is presented with a suggestion regarding the product he should offer (and why).
If we assume:
- 100,000 inbound contacts per month.
- 5,000 (= 5%) with potential sales opportunity
- 500 (= 10% of 5,000) contracts actually closed
- NLG 3,500 profit margin (over twenty-year period)

then the total contribution to profit will be NLG 1.8 million per month (= 500 contracts x NLG 3,500)

Analytic Customer Relationship Management

Analytic Customer Relationship Management (A-CRM) techniques are a separate component of the overall CRM concept. A-CRM is designed to strengthen the relationship with the customer and to increase profitability (customer value) by means of an analysis of individual customer information, resulting in the generation of 'customised' proposals. Specific products can then be offered during direct contact with the customer. A-CRM techniques also enable evaluation of the results of this approach.