



CASE STUDY

INFORTE'S CRM STRATEGY ADDRESSES KEY CHALLENGES FACING SMALL AND MIDSIZE RETAIL BANKING INSTITUTIONS

INFORTE

COMPANY BACKGROUND

Located in one of the wealthiest suburbs of a major U.S. city, this retail banking institution with assets under one billion, competes against banks with much stronger market presence and wider geographic reach. This is mostly due to consolidation, which continues to spawn large banks that have the scale to deliver a broad array of products and services to a wide range of individual and commercial customers. Also, large banks are adopting new tactics such as process standardization and electronic channel usage to drive down costs and help them compete for the most profitable and highest potential customers. Small and midsize banks face an increasingly competitive marketplace.

BUSINESS ISSUE

Of the client bank's 60,000 customers approximately 10,000 have less than \$250 in total loan and deposit balances. Some of these 10,000 customers are inactive, but continue to receive costly paper statements monthly. Other customers do not even have a checking account, but consistently cash checks at their local branch. These activities are obviously costly and further diminish the profitability of the bank's customer base. Surveys indicate that 98% of the bank's customers are generally satisfied with the service they receive. However, the bank suspects that it is over-serving less profitable customers and not taking advantage of opportunities to enhance relationships with higher-potential customer segments. However, the bank has had difficulty changing its long-standing practice of providing the same level of very high quality service to every customer regardless of value. This is just one example of the many challenges facing midsize banks:

- Build market share in an extremely competitive geographical area
- Recognize the value of existing customers
- Attract, acquire, and retain the most profitable and highest potential customers
- Increase wallet share of existing customers
- Realize the potential return on a CRM investment
- Comprehend the complexity, scope, and implementation sequence for CRM processes and technology
- Know the capacity of the existing technology infrastructure to handle a CRM application
- Educate staff on the importance of providing equitable service
- Train staff on the value of process standardization

The bank understood the importance of increasing market share in its geographic region. However, they recognized that profitable growth would be most efficiently achieved through acquiring profitable customers and maximizing the potential of existing customers. Customer Relationship Management (CRM) was being considered as a means of carrying out this objective of increased customer intimacy and profitability. However, the institution viewed CRM as a large scale, high maintenance technology solution with many integration points. This misperception made the task of implementation seem intimidating and confusing.

KEY POINTS

► BUSINESS OVERVIEW

A midsize bank, located in one of the wealthiest suburbs of a major U.S. city with assets under one billion, competes against banks with much stronger market presence and wider geographic reach. Of the client bank's 60,000 customers, approximately 10,000 have less than \$250 in total loan and deposit balances. Some of the 10,000 customers are inactive, but continue to receive costly paper statements monthly. Other customers do not even have a checking account, but consistently cash checks at their local branch.

► SOLUTION

Our client knew that it was over-serving less profitable customers and not taking advantage of opportunities to enhance relationships with higher-potential customer segments. Inforte understood the importance of increasing market share in the bank's geographic area, and recognized that profitable growth would be most efficiently achieved through acquiring profitable customers and maximizing the potential of existing customers.

► RESULTS

Inforte partnered with the client to develop a customized CRM strategy that provided the tools, technologies and processes that focused on understanding their current and prospective customers and develop strong relationships with the right customers to differentiate themselves from the competition.

"We now have the processes and tools in place to reach the right customers, increase our presence within our own region and ultimately will make us more competitive."

— Bank Vice President

INFORTE'S SOLUTION

Inforte, a proven leader in CRM strategy and technology implementation has successfully delivered CRM projects for many companies across diverse industries, including small and midsize retail banking institutions. Using its proprietary methodology, Inforte has helped companies answer CRM's most pressing questions.

To develop a successful CRM strategy for the client, Inforte helped the bank's management team address fundamental strategic questions that needed to be answered prior to implementing any new technology solution. These questions included:

- What will CRM accomplish for us?
- How can CRM get us closer to achieving our corporate goals?
- What are the characteristics of our current customer base?
- Are we serving the various segments of our customer base with the appropriate types and levels of service?
- Will the bank's current processes attract and retain profitable customers?
- Should we build a CRM application around our current processes, or can we reengineer our customer-facing processes to tailor service levels more appropriately?
- How do we enforce processes with the CRM application?
- What should be the scope of our CRM implementation?
- What is the most effective means of implementing CRM technology for our business?
- How do we convince front-line staff that CRM is valuable?
- How do we ensure that front-line staff embraces CRM principles, processes, and technology?
- How do we change long-standing practices and behaviors that are inconsistent with CRM principles?

Through this line of analysis and questioning, the client became aware that CRM is much more than simply an application, but

rather a new, more compelling way of thinking, behaving, and treating customers with strategic, process, people, and technology applications.

The solution was to customize Inforte's comprehensive CRM strategy Methodology to address the client's challenges. Based on years of experience working with retail banks, Inforte's strategy methodology included key deliverables such as CRM business objectives, customer segmentation analysis, segment value propositions, customer-facing processes, vendor recommendations, and a CRM implementation roadmap to help the financial-institution client prepare for implementation. The strategy also included a detailed ROI Model to determine investment levels, key metrics and overall returns.

Before initiating the project, Inforte prepared some pre-reading materials for the management team that gave a basic, consistent understanding of major CRM principles. The information helped the client's management team to immediately engage the Inforte project team in CRM discussions. Having grasped the basics of CRM, the management team sought to understand how to get from their current operating procedures to a state of true customer centricity.

In order to help the client understand more thoroughly the current state of their business, Inforte conducted a kickoff meeting followed rapidly by a set of focus groups for both executive and front-line staff. These sessions identified key performance metrics, pain points, and goals of the overall business, as well as marketing, sales, service, and technology barriers to CRM. In addition to information collection, these meetings also served to help executives and front-line staff understand current organizational myths, misconceptions, and barriers to customer intimacy.

Assessing the Current State

From a tactical, operational perspective, the following gaps and conditions were identified:

- CRM goals unaligned with corporate objectives and metrics were not being used to measure performance against the objectives
- Little knowledge of the customer base's current value, demographics, potential, product holdings, and life stage existed
- A desire to understand product and service needs of different customer groups was unfulfilled
- No differentiated value propositions indicated how to treat different customers

- Seasonal, rather than targeted, marketing campaigns were in place
- Sales incentives were aligned with customer needs or product profitability; only product of the month or products with the best commission were offered
- No standard customer-facing processes; sales and service practices varied across front-line staff
- Limited communication and integration between marketing and sales staff; sales staff was often unaware of marketing campaigns
- Redundant sales pitches to customers who either already purchased the product being offered or had continuously rejected it, e.g., pitching HELOCs to renters or 529 plans to people without children
- Tracking of service requests and inquiries did not result in a record of the interaction which limited understanding of the customers' service experience
- Limited recognition of what application functionality must be implemented, and in what sequence, to achieve CRM goals
- Current technology infrastructure (servers and databases) had not been assessed to ensure that it was compatible with and capable of supporting a CRM application
- No understanding of the potential return on a CRM investment

Aligning Corporate Goals with CRM Objectives

The initial assessment of the current state served as an "eye-opener" for the bank's employees and a call-to-action. Inforte's next step was to facilitate a workshop with executives to align corporate goals and initiatives with CRM objectives. In the meeting, Inforte isolated the corporate goals that could be fully or partially achieved via CRM. The result was a set of high-level CRM business objective statements indicating how the institution wanted to grow (organically or through acquisition, etc.), increase margins, and enhance service capabilities. The institution decided to focus on growth through increased product and service penetration within the existing customer base and acquisition of the most profitable and highest potential customers through more targeted marketing campaigns and community outreach programs. The client planned to increase margins by eliminating inactive accounts and discouraging usage of costly channels by less-profitable customers. To measure progress against these objectives, Inforte aligned each one with performance metrics.

Building a Customer-Segmentation Model

Once the business objectives were clear, Inforte analyzed customer

data to identify trends and used an innovative segmentation model to group customers into relationship-based segments. The team used attributes that measured the size, breadth, and potential of each customer relationship, complexity of product holdings, primary "relationship products" per segment, and demographics, along with other tools that identified expressed preferences, needs, and life stage. Inforte identified six unique customer segments around which marketing efforts and focus sales and service processes could be targeted.

Some of the major findings follow:

- The two most valuable segments represented only 4% of the customer base, but accounted for 39% of the total operating income.
- The two least valuable segments, representing 57% of the customer base, accounted for only 8% of the total operating income.
- The most profitable customer segment was in its prime working years and had broad loan and service needs.
- The next most profitable segment was of retirement age with high deposits, but very low loan balances; this insight represented a huge opportunity to sell investment services to seniors by convincing them to use the investments services group to move their money from savings and CDs to mutual funds.

Creating Unique Value Propositions for each Customer Segment

Equipped with a clear picture of each segment's value and life stage, Inforte worked with executives to create a unique set of value propositions that indicated exactly what the customer should expect to gain from a relationship with the bank, how they should be treated, and why this was a better solution to their needs than competitive alternatives. This exercise enabled the client to go beyond just understanding their customer base to defining and executing a strategy for each segment. This was the first step away from misaligned service levels and toward tailored service in which customers received service levels proportionate to their value and potential.

Standardizing and Improving Customer-Facing Processes

To support the movement toward customer centricity, Inforte developed a set of marketing, sales, and service process maps to lay the foundation for standardization. These processes were not only aimed at eliminating excess costs, but more importantly, at ensuring consistent, fast, and more effective execution. Both top management and front-line staff collaborated with Inforte to ensure

that processes met business and customer needs and were integrated across channels and functions. This, again, served to educate employees on the value of consistency and cross-departmental integration. The next step for this institution is to tailor these base processes for each customer segment.

Assessing Current Technology Gaps and Creating a CRM Implementation Roadmap

From a technology perspective, Inforte educated the bank's employees on the gaps between their current technology capabilities and those required to implement a fully functional CRM solution, including servers, databases, and resources. Using the information gathered during the technology assessment, Inforte analyzed the complexity of implementing different types of functionality. CRM functionality was organized into numerous categories including campaign management, account management, contact management, lead management, order management, and service requests, among others. This "complexity analysis" estimated timeframes, required resources, and costs of implementing each category of CRM functionality and was used as an input to both the ROI Model and the technology aspects of the CRM Implementation Roadmap.

The CRM Implementation Roadmap laid out the entire sequential CRM implementation program including required process refinement, technology architecture, CRM technology configuration and programming, the required organizational/ behavioral changes, and the project governance approach. The plan served as the blueprint for full CRM implementation at this institution.

Creating an ROI Model

To answer the most important question, "what return should we expect," Inforte engaged the CFO and the leadership of the bank's branches and call centers to define a series of expectations for growth and savings resulting from new CRM capabilities. These projections, as well as the estimated total investment, were integrated into a comprehensive ROI Model designed to calculate expected rate of return. Even with extremely conservative assumptions around improved marketing effectiveness, increased referrals, and increased sales, the expected return was strong, with a five-year net present value of about \$1.5 million or a 112%

internal rate of return (IRR). Slightly more aggressive estimates indicated a five-year net present value (NPV) of about \$3.2 million. Due to economies of scale and implementation efficiencies, a \$10B institution should expect an NPV of 75% and an IRR of 110%.

BUSINESS BENEFITS DELIVERED

Inforte helped the client increase the profitability of their customer relationships and differentiate itself from the competition by implementing the following CRM capabilities:

- Increased customer penetration and wallet share of existing customers
- Improved marketing effectiveness and campaign hit rates
- Increased customer satisfaction and retention
- Reduced sales and service operating costs
- Improved understanding of customer and product profitability

CLIENT REACTION

Inforte's work was extremely well received at all levels of the organization. Not only did this institution increase its understanding of CRM but it also helped customize a strategy for the entire organization in a matter of weeks and obtained an understanding of next required steps with a strong financial rationale for moving forward with CRM. CRM principles have already spread throughout the organization, facilitating positive change and enhancing the relationships of front line staff with their customers.

WORDS OF ADVICE

Though these results were extremely positive and the culture has begun to change, this institution still needs to build and implement process-enabling technology to support its new customer segments. While continuing to enact cultural change, they plan to continue working with Inforte to develop detailed process designs in support of segment strategies and value propositions, and then, implement a full-scope CRM solution that supports sales, service and marketing across multiple channels.

ABOUT INFORTE CORP.

Inforte helps companies acquire, develop and retain profitable customers with a unique combination of strategic, analytic and technology deployment services. Our approach enables clients to improve their understanding of customer behavior; successfully apply this insight to customer interactions; and continually analyze and fine-tune their strategies and tactics. Founded in 1993, Inforte is headquartered in Chicago with offices in Atlanta; Dallas; Hamburg, Germany; Los Angeles; London; New Delhi, India; San Francisco; Walldorf, Germany; and Washington, D.C. For more information, call 800.340.0200 or visit www.inforte.com.