

Move over, Customer Relationship Management, and make way for Customer Relationship Marketing, which is driven not by what the bank has to sell but by what the individual customer actually needs to buy

By Bob Angel

Illustration by Jacques Cornoyer/Piranha



Another credit-card offering in the mail, another telemarketing call during dinner ... Customer Relationship Management strikes again! CRM has helped banks move to more of a sales culture - away from product and closer to the customer. The result has been higher response rates, cross-sell growth and improved retention. But this approach to marketing is starting to reach its limits, particularly in customer satisfaction.

Traditional push-style marketing campaigns generated from analytic modeling can have negative results: a campaign hit rate of around 5% may be outweighed by alienating 10% or more of the customers. As the Harvard Business Review puts it, the very things that marketers are doing to build relationships with customers are often the things that are destroying those relationships.

Indeed, Customer Relationship Management is becoming a contradiction in terms, because in the networked economy, the relationship is managed not by the bank but by the customer. Perhaps CRM should be renamed Customer Relationship Marketing: event-based marketing driven by the needs of the individual customer.

But your customer really likes you, right? A study conducted by Insight for NCR in Canada last year suggests otherwise. It revealed a large discrepancy between how Canadian banks view their customer relationships and how customers themselves do.

Nearly all the bankers surveyed said their customers were neutral to very happy with the products and services the bank was offering them. However, when customers were asked, 44% said they were neutral to unhappy - the bank wasn't giving them what they needed - and 31% said there was every likelihood they would change banks within the next 12 months. Worse yet, a full 44% of Internet banking users said they might change banks in the next 12 months.

Why were the customers' views so different from the bankers' views? Why were there so many comments like "Banks don't listen" and "My bank doesn't understand me"? The answer is that many banks lack a workable mechanism for understanding what's going on in their customers' lives.

Getting personal again

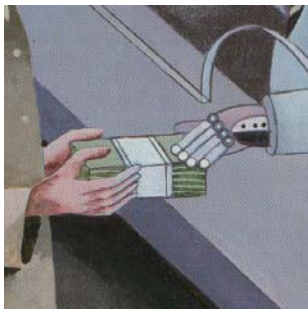
It wasn't always like this. Fifty years ago, banking was a face-to-face business, largely conducted in the branch. It was very personal. The branch manager knew almost everything he needed to know about most of his customers.

Technology helped destroy that closeness to the customer as it drove down processing costs. Banks were able to gain economies of scale by pushing more and more transactions via automated channels. As they did so, they became increasingly detached from the personal day-to-day needs of individual customers. CRM has been in part an attempt to restore some personalization to the banking relationship. Technology enables banks to analyze millions of transactions, detecting patterns that have predicted certain behaviors in the past. This helps them to deduce potential sales opportunities - and with some success. Targeted campaign hit rates have been significantly higher than untargeted ones. Modeling and related techniques have definitely improved market penetration and customer retention over the last decade, and continue to do so.

For all that, computer models make selling assumptions about what customers want without specifically knowing what's going on in the lives of those customers. The evidence for this is in the proliferation of campaign marketing shots that miss the target. Once again, technology is often damaging banking relationships.

At the same time, technology has made remote banking pervasive - on the Internet, over the phone, by credit and debit cards, at ABMs. This means that just as banks are in need of higher-touch relationships, a new generation of "invisible customers" (people who use electronic channels and don't visit branches) is migrating to lower-touch channels.

Invisible customers are frequently prepared to use technology to conduct banking under their own terms. They tend to be less loyal to their bank. They're pressed for time, often resistant to what the bank wants to sell them, yet have come to expect convenience and choice. As a senior U.S. banker recently put it, "Here is the issue. Customers don't care about our stuff. They care about their stuff."



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The reluctant customer

Several Internet vendors capture individual customers' recent interaction history. The idea is to match past successful selling with current customer behavior. Sophisticated modeling techniques enable individual customer profiles to be built, leading to suggestions about the next purchase.

Often, however, recommended actions are still based on patterns and models, and still aimed at pushing products. This can be contrasted with a true one-to-one relationship approach based on knowing (rather than deducing) the individual's situation and needs, through dialogue with the customer.

In understanding what "one-to-one" requires, it may be helpful to consider what constitutes a banking relationship. The relationship must be mutual, and include a willingness to exchange not just money but also information. Studies in the United States indicate that the typical bank customer has seven banking relationships and, on average, no more than four of them are likely to be with any one financial institution. Not everyone wants a relationship with his or her bank. A part of each bank's customer base appears to prefer to deal with the bank purely on a transaction basis - nothing more than basic chequing and savings. Regardless, many banks want stronger relationships with all their customers. They're driven by a desire to boost "share of wallet" and to maximize relationship profitability by selling more and higher-priced services. This may not be what some of their customers want. Thus the potential for relationship conflict is set up: the goals of the bank are out of synch with the wants of the customer. The lesson is that relationship strategies need to be much more selective in their application.

How can you tell which customers do, and which don't, want a banking relationship? At what point does the customer become ready for a relationship, requiring more than just transaction services? That point, or relationship threshold, can vary considerably from individual to individual and is of huge importance, since it indicates when and to what extent value-added channels and services are desired enough to earn their keep.

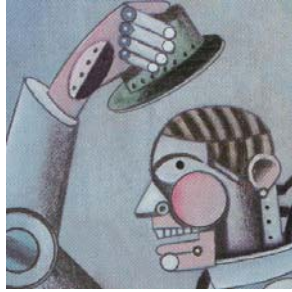
The key here is to recognize each bank customer as an individual, not a segment member. The significance of individual behavior can be completely missed by measuring at the aggregate. Accurately gauging the banking relationship threshold requires bottom-up calculations, account by account and transaction by transaction.

Who's in charge here?

One of CRM's most crucial cultural side-effects has been the shift from a focus on product and channel to customer segment, and then to the individual. This can set off serious discussion within a bank around the question, "Who manages the customer relationship?"

Clearly, the traditional answers don't work as well any more. It's certainly not the branch exclusively, in a world of multi-product, multi-channel, wealth-management-oriented strategies. It's not really the product, in a world of relationship profitability and share of wallet. Part of the answer lies in customer segmentation. Indeed, we see a number of banks re-organizing their marketing around segments as well as products and channels. However, there's a danger of losing sight of the fact that in today's networked society, it's increasingly the customer who manages the relationship, not the bank.

Today, the invisible customer (who banks electronically) has access to a huge and growing range of information about the banking marketplace, and a growing range of financial-services options. These customers certainly see themselves, not their banks, as the owners of the relationship.



The next move is the linking of relationships and significant **events**, but as a leading bank practitioner has observed, “80% of the **significance** decays after only five days”

Looking for events

A number of thought leaders in the banking industry are already working on the next move - the linking of relationships and significant events. As Peppers & Rogers, exponents of one-to-one marketing, have stated, "financial-services companies tend to know a great deal about their customers." Today that means analyzing information about individual customer interactions, including financial and non-financial transactions. Data sources embrace click-stream from Internet banking, and are expanding outside the bank to include demographics, lifestyle and other external data.

Several Canadian banks already look for certain financial transaction events, albeit on a limited basis. A large deposit is an example of such an event: it might be the result of an inheritance or perhaps a bonus, possibly indicating an opportunity for the bank to help invest the funds. On the other hand, it might be a staging of funds towards a larger purchase (a house or car), perhaps indicating an opportunity to lend funds. The point is that simply detecting the event may tell you very little about what's really going in your customer's life. The real need is to detect not just events but significant events. Significance means different things to different customers. A \$10,000 deposit may be very significant for me, but for someone else it may mean something completely different.

Changes, some large but most relatively small, are regular features in the circumstances of any bank's customers. They're the causes of most changes in relationships with the bank. The changes can be routine or non-routine - a complaint about an unsatisfactory transaction, maturity of an investment certificate, or a major life event such as inheritance, house purchase, birth of a child or change of job.

Most changes have one characteristic in common: they have a rapidly diminishing significance over time. One of the leading bank practitioners of event-based marketing, with a major Australian institution, has observed that "80% of the significance decays after only five days. In other words, the event needs to be acted on within no more than 36 hours, after which the customer has probably already made a decision." To find significance calls for comparison with past behavior. Sometimes it then calls for a dialogue with the customer to find out what the real need is.

Can we talk?

Dialogue with the customer was where we started - what the bank manager did 50 years ago in the branch. In those days, when customers numbered in the hundreds, it was feasible to have a dialogue with every one of them. Today, with millions of customers, and millions of transactions every day, it can appear daunting. However, technology, which has so much to answer for, can actually help provide the solution. Powerful databases (such as NCR's Teradata relational information technology) can store individual transaction, account-level data and other detailed information for analysis of complex relationships, account by account. The key is to understand the individual customer's behavior and to be able to identify when a change occurs.

The bank should be able to respond immediately to specified customer events. The bank can define the significant events that are important to its relationship strategies and then, more importantly, set the rules for communicating with selected customers to explore actual needs.

This involves determining the appropriate frequency of customer communication for different relationship strategies, setting priorities about who to communicate with and which channel to use. Also, the rules should reflect any preferences the customer may have expressed (such as "Don't ever call me during dinner.")

The initial purpose is not to push more product at the customer, although experience shows that a sale is more likely to be the conclusion of the dialogue than in traditional product-push campaigns. The objective is to determine for selected customers what they need from their relationship with the bank, then to fulfill it.

The results can be dramatic. The Australian banker quoted earlier points to a significant relationship boost from what he calls "behavioral leads" - looking for significant events that match up with his marketing strategies, then selectively individualizing customer communications. He has found that behavioral leads can outperform statistical models by three to one, resulting in a substantial increase in bank relationship profitability.

The first step for banks practicing Customer Relationship Marketing based on significant events is to select customer leads every day based on observing customer behavior, transaction by transaction. This means being able to answer the question, "Which customers do I want to talk to today?" and then taking appropriate action.

As more and more banks offer similar services and products - and get more sophisticated about monitoring current transactions and past interactions - the central component of a bank's branding strategy should be the relationship. Event-based marketing is how relationships can be built.

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