

# The Point

An Outlook Financial Services Publication

## The New Customer Imperative

Retaining and acquiring customers  
in a changed banking landscape



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In the history of banking, there has never been a more important time to focus on the customer. 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. While banks are marshalling resources to raise capital and cut costs where possible, they must not overlook their lifeblood: ongoing acquisition and retention of customers.

A recent Accenture survey of U.S. banking customers estimates that as much as 30 percent of a bank's customer base today is vulnerable. Customer behaviors, attitudes and preferences have been forcibly altered by the economic downturn, and a new customer math—and a new success formula to master it—is fast emerging.



To seize the opportunity of so many customers in flux, banks must commit the time, talent and money to adjust their game plan to these new external and internal realities through actionable customer segmentation, sophisticated pricing, flexible solutions that meet changing needs and differentiated digital marketing capabilities. By tightly aligning and integrating their offerings to retain and acquire customers, banks can unlock organic growth and operating efficiencies in parallel.

These actions also can help lay the groundwork for a broader operating model transformation to grow and sustain profitably long term. But right now, as the banking industry moves from a product-driven model to a customer demand-driven one, focusing on understanding and engaging the "new" customer has to be a priority. For the banks that act now, a return to high performance can follow.

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There is no question that banks must be focused on raising capital and cutting costs in an industry that has changed forever. However, there is another priority that should be high on management's agenda: acquiring and retaining customers.

A recent Accenture survey of bank customers in the US estimates that up to 30 percent of a typical bank's customers are "in play," meaning these customers may change their banking relationships or change the amount and nature of their consumption as they seek to preserve their financial well being.

Faced with a shrinking pie and potentially unfavorable shifts in the mix of revenue and margins, it is clear banks need to act to: a) keep their best customers and b) selectively gain share by attracting the disenfranchised. The question for chief executives becomes how, given three major complications:

- Scarcity of time, money and talent
- Ongoing waves of change that keep moving the target
- Coordination of customer actions across the organization

The ripple effects of the credit crunch—lost jobs, consumer confidence, homes and savings—have combined to dislocate consumer needs and behaviors and force a realignment of financial priorities. These new realities have created a new customer math for banks and the need for new revenue



### Banks must address the concerns facing the industry and their customers strategically, starting with asking and answering the right questions

#### What ?

- How do we balance the need to significantly reduce costs with the need to retain and acquire the customers?
- What changes are we seeing in customer needs, attitudes and behaviors?
- Which is a bigger priority: protecting and extending relationships or more generally rebuilding trust and confidence?
- Who are our "must keep" customers? Who drives the most bottom-line impact? What should we be doing to protect them?
- What changes are we seeing in customer economics and what impact will this have on the structure of our business?



#### How ?

- How do we coordinate customer treatments across the organization to minimize cost and maximize customer impact?
- How do we isolate customer risk and prioritize actions against the "right customers"?
- What types of customers are we most interested in attracting and how well are we doing?
- Are we fully and effectively leveraging digital channels to drive improved conversion rates and new customer acquisition?
- How do we define success in the short term and in the longer term?
- How should we allocate scarce marketing, sales and service resources?

streams and strategies to solve it. Re-establishing the customer trust and loyalty once considered a given in bank customer relationships must become the foundation for a new business model. The financial downturn, generational changes, technological advances and competitive factors have all combined to challenge the "trust capital" once taken for granted.

### The opportunity in uncertainty

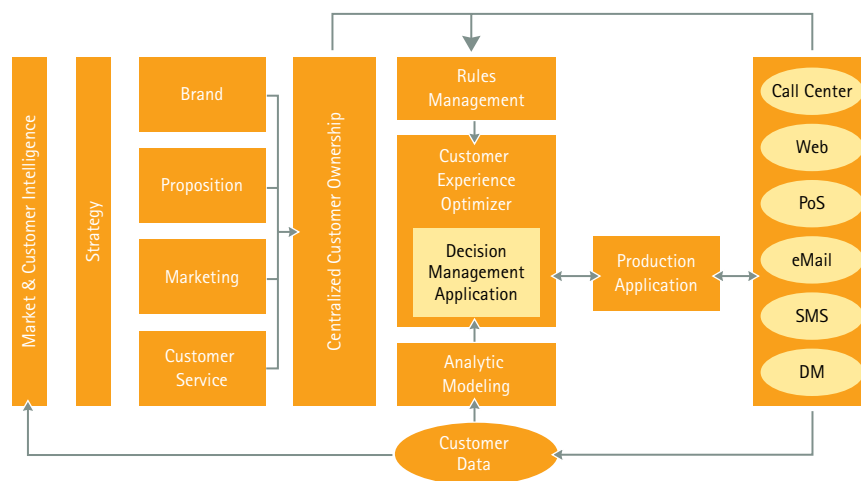
For banking leadership, this is a moment of truth in which the greatest risk is inaction. The new global consumer mindset is setting the stage for change. Needs, attitudes and behaviors are on the move. This represents a golden opportunity for banks to refocus the attention and resources necessary to align offerings and interactions to match that mindset among their most valuable customers. In the present and post-crisis customer landscape, Accenture believes developing the following actions will prove critical:

- Understanding the changed customer—Redeveloping a finely tuned view of the whole customer given the major economic shifts and broader challenges of an increasingly "customer-centric" market
- Innovating across the experience—Defining, applying and optimizing targeted treatments in terms of features, interaction and pricing
- Measuring the newly important—Managing the interplay between the whole customer relationship performance and the effectiveness of "experience" investments, including pricing

Banks that act quickly, efficiently and at scale to apply tailored treatments stand the best chance of retaining customers and gaining those put at risk by competitors. Success on this front is predicated on the bank operating and acting in

By sharpening actionable research, segmentation and analytics, banks can deliver a consistent customer experience that meets new and evolving needs and expectations and reduces churn

#### Central decision-making and execution agility



- Adapt product, proposition, pricing and service strategies to meet changing needs of target customer segments
- Prioritize marketing investments/treatments on the most profitable customers (and consider future potential)
- Create reasons for customers to stay and spend by focusing on exceeding their expectations at those touch points that really matter to a customer and meeting their expectations at the rest



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unison, driving and tailoring services in a coordinated manner, to avoid optimizing silos instead of the whole.

### Actions banks can take now

To address immediate customer challenges and mobilize around them, there are four pivotal steps banks can take now:

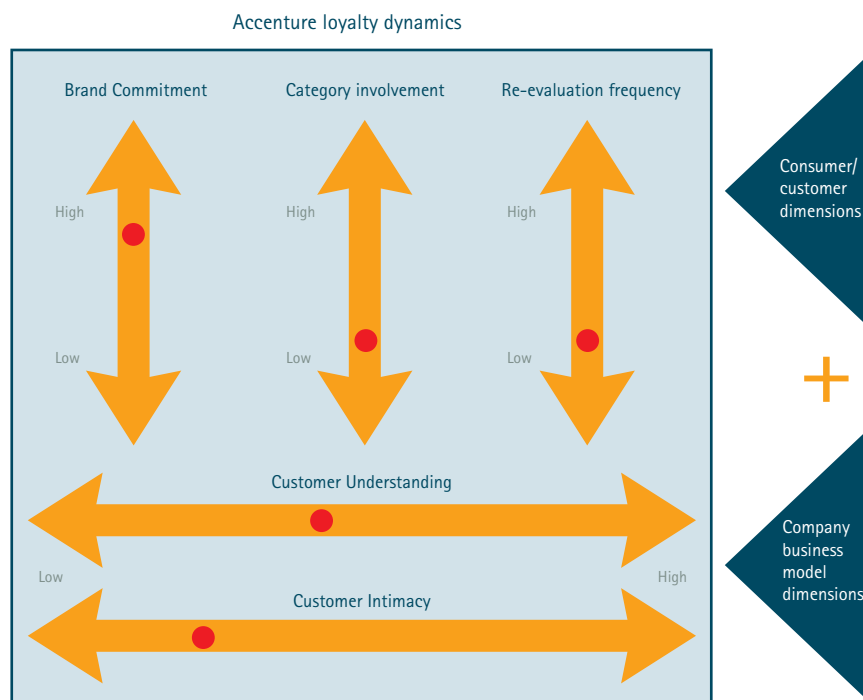
#### 1. Assess the customer franchise and set plan of action

With up to 30 percent of customers in flux, banks must act quickly to deepen their understanding of customer dislocation and proactively demonstrate their capacity to assess and meet the new wave of customer needs, characteristics and behaviors at every level. By

developing a more accurate picture of various customer relationships, banks can determine those most at risk and align retention and acquisition strategies for those priority segments accordingly.

This requires some level of customer segmentation. The key is that such segmentation must be "actionable." A bank cannot get trapped in an analytical quagmire identifying dozens of granular segments, each of which requires hundreds or thousands of specialized treatments. Instead, Accenture research and client experience has outlined 15 distinct customer "personas" that can be found in a typical bank's existing or target customer base.

Focus on profitable customers' loyalty: identify the most profitable customers and understand the real drivers of their loyalty



Banks need to recognize, grow and manage more than one kind of customer loyalty

Loyalty is a result of multiple factors:

- customer orientation toward the category
- the brands in the market
- individual consumer decision-making
- the business transactional model

Target marketing activities by reassessing whether customers who were once considered advocates are still the most profitable customers

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The Point  
Volume Nine, Issue 4  
2009

One such "persona" is the mid-to upper-income "Householder". Customers with this persona seek to maximize their financial assets by moving portions to safer havens in uncertain times. They show a high degree of financial self-direction and have a preference for in-person advice when researching purchases, though the actual transaction may be done online. They are brand loyal and value quality and tailored products and services over price.

By identifying its four or five key customer personas, a bank can first assess those that are most at risk or present the best opportunities and then determine which segments to focus its top talent and resources on, thus driving appropriate action and attention to the highest-value sectors.

However, banks must also keep in mind that their customers' attitudes are not static. Throughout the relationship lifecycle between customer and bank there are always relevant "moments of truth" when customers may change their attitudes or behaviors according to shifting context or need. To capture such opportunities, banks have to set-up a proactive contact management system that can respond when the needle on the relationship lifecycle moves. Deutsche Bank and National Australia Bank both provide good

examples here. Each of these leading banks has developed a state-of-the-art triggering engine to support those on the front line in the identification of specific customer events that represent important sales or service opportunities.

## 2. Identify priority customer needs and mobilize to meet them

Once a bank has developed a stronger understanding of its customer, it can respond to the changed needs created by the current crisis with innovative treatments—product and service solutions, pricing and marketing campaigns—coordinated across the organization to deliver tailored offerings that fit the new customer realities.

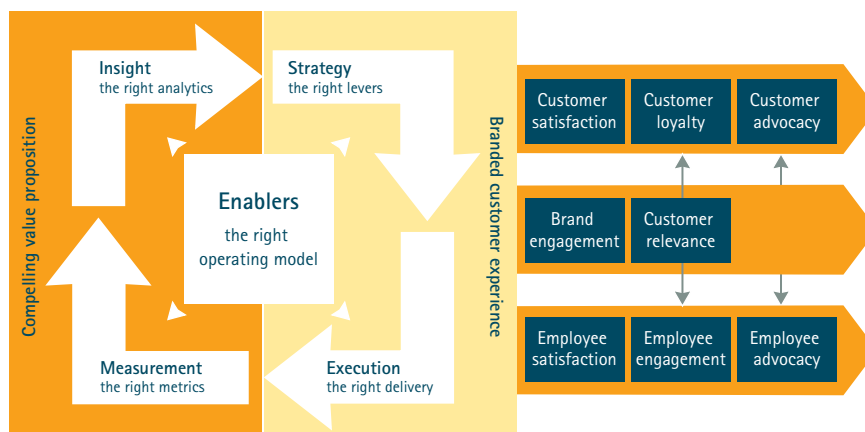
The key is for banks to integrate such mobilization with a renewed emphasis on customer advocacy. In an example from the insurance industry, Nationwide launched a program called PRIDE to popularize its core values and make them resonate with current and potential customers in the marketplace. PRIDE is an acronym for "Putting the customer first", "Rising to the challenge", "Inspiring confidence", "Delivering best value" and "Exceeding expectations".

Intuitive, relevant and compelling treatments can not only boost the



### The big picture:

Accenture's end-to-end view of retention and acquisition strategies and tactics



Source: Accenture

loyalty of existing customers, but also can increase the effectiveness of a bank's marketing to prospective customers. For instance, in the "Householder" persona the banking experience needs to combine easy-to-use online features supplemented by trusted relationship building during face-to-face interactions. The goal is to optimize selling and support services for Householders through tailored deposit or investment products online as well as sell-on potential for higher-margin advisory services in person.

Two factors are of particular importance in helping banks devise the most profitable tailored treatments. The first is enabling customer-facing sales and service representatives in identifying customer needs and attitudes. By elevating people's skills and capabilities, banks can enhance their autonomy and ability to identify the best solution for each customer's needs. A good illustration of this can be seen in Barclays'

"Way Ahead" program in which the bank identifies six imperatives that its employees should apply to better meet customer needs. Another is Royal Bank of Scotland's "Money Sense", a program the bank developed to improve employees' financial skills and competencies through a specific training regime with the broader aim of providing in-branch financial advice to anyone that wants it—including customers of other banks and those without bank accounts.

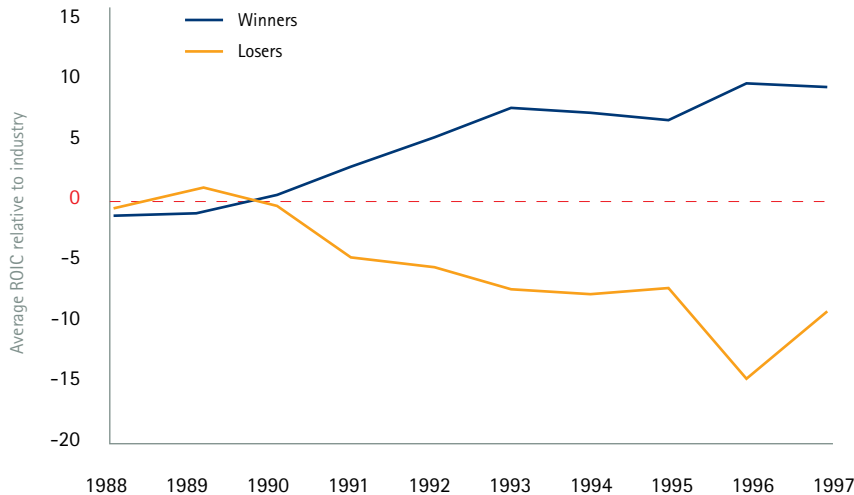
The second factor is sophisticated pricing tools. New technologies can enable banks to model and balance the tradeoffs in different offer combinations to find the ones that provide the most compelling benefits for specific personas without sacrificing margin. Advanced pricing capabilities also can help banks steer clear of simplistic and costly incentives—such as cutting or eliminating fees, reducing interest rates on loans or giving higher rates on savings accounts and CDs.



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Lesson from the last recession: Regardless of industry, the winners to emerge from the current downturn will be those that seize this as an opportunity to become the high performance businesses of the future

Performance comparison across 850 large US companies following the 1990–1991 recession



Source: Accenture

While such actions may result in a short-term reduction in churn or a lift in new customers, they do so at the expense of margin and so are unsustainable over the long term. For example, a bank implementing a major credit card repricing initiative may adversely impact its depositor relationships.

### 3. Execute across the right channel mix

Having created innovative treatments for its target customer personas, a bank can then focus on delivering those treatments through the right mix of channels—those preferred by each persona and profitable for banks. For some customers, the branch will always be the primary business venue, but the proportion of consumers who prefer the Internet for most interactions is growing. By understanding how each persona wants to do business and tailoring interactions accordingly, banks not only can strengthen customer loyalty but also reduce product and service delivery costs.

The Internet also can be a powerful tool for attracting and building loyalty among new customers through targeted marketing programs. Today's new Web 2.0 capabilities—such as social networking, blogs and online comparative tools—present new opportunities for forward-thinking banks to reach specific targets or segments more efficiently and forge stronger relationships with customers in those segments by, for example, creating a virtual community in which a specific persona or customer segment can congregate, interact and discuss common issues.

For example, the Wells Fargo-Wachovia Blog is among the most active blogs in financial services, with the chief executive and other bank management posting to the blog to address customers' questions and concerns. In another instance of increased transparency, Bankinter has installed its "Comparador" tool on its website that allows its customers to compare its financial products from mortgages, loans and credit cards with those of

other providers. The tool enables customers to assemble best-of-breed product portfolios, while positioning Bankinter as the bank that puts its customers' best interests first.

### 4. Establish better ways to measure return

To ensure new customer initiatives are achieving the desired effects, banks must implement comparable metrics, particularly in the key benchmarks of customer attrition, revenue velocity and revenue volume. If a bank invests in a more customer-centric approach, it needs to know which elements of the customer experience are having the greatest impact on loyalty, satisfaction, profitability and growth.

As it implements improved metrics, a bank must determine whether to use them at the individual customer level or the broader persona level—a decision that largely hinges on the bank's resources and competitive situation. A bank then must decide how frequently to measure results—quarterly or even monthly—and to what degree of detail. By doing so, it can alter course quickly in response to rapid changes in market conditions, segments or customer demands.

Developing the right set of key performance indicators (KPIs) is also important. KPIs that gauge long-term performance drivers like loyalty, rather than short-term biases such as cross-selling, can foster a stronger customer orientation and spread it throughout the organization. In this vein, Royal Bank of Canada launched a tailored automatic overdraft protection policy targeted to ensure long-run relationships in lieu of immediate revenue gains. Under the policy, after 90 days, any checking customer with at least one deposit and a low credit-risk score received overdraft protection customized to their profile. The policy has not only improved the customer experience and reduced the bank's bad check handling costs but it has also led to a 13 percent increase in average profit per checking client and a 20 percent increase in high-value clients in just five years.

The Accenture logo features a stylized greater-than sign (>) above the word "accenture" in a lowercase, sans-serif font.

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## The end game and new game

Many banks are in a fight for their lives. They need to move fast to cut costs and find new sources of capital to live to fight another day. But without decisive action on the customer front, banks may find themselves winning the battle only to lose the war. To the extent the industry is shifting from a supply-side, product-driven world to a demand-driven one, the driver of this new model is the customer.

Still, once a renewed customer-focused strategy is in place, banks will find the harder work begins. The dramatic changes to the global marketplace broadly and customer behavior

specifically have changed the playing field for good and banks must rethink and restructure their operating models to adapt to and align with the new reality. Banks must follow the four steps today to differentiate themselves by reshaping their business model on renewed customer expectations, with the aim of delivering a truly innovative customer experience tomorrow.

Lesson from the last recession: winners grasp the challenges of the moment as an opportunity to improve market share, make bold decisions and create both structural and operational advantages to become the high-performance banks of the future.

  
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