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Client-centricity

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Becoming a more client-centric institution

Financial institutions are not renowned for the way they treat their customers. Many associate this lack of so-called client-centricity with the fact that banking institutions continue to treat customers as if the old JP Morgan adage still holds: banks are in fact doing their clients a favor by conducting business with them. And, of course, old habits die hard.

While this might be an exaggeration, it is not an uncommon view. However, it is not always clear whether financial institutions genuinely treat their customers poorly or whether they simply lack the ambition to put the record straight. It is hard to quantify just how poor their quality of service really is vis-à-vis their peers in other sectors. Complicating matters, some financial institutions have actually been case studies of highly customer-centric organizations.

In this issue of the Journal some of the world's leading authorities in the field of customer-centricity share with us their views about what best-in-class customer service provision looks like, and provide prescriptive advice about how financial institutions can institute the kinds of transformational change necessary to become truly client-centric organizations.

This edition focuses on the tools that are necessary for delivering client-centric services and the content management methodologies that enable financial institutions to achieve their objectives. We hope that you find the ideas posed by our contributing experts useful in your own endeavors to become a truly customer-centric organization.

We also remain true to our objective of offering views on the major issues impacting our world from the world's leading economists: those who have been awarded the highest accolade in economics, the Nobel Prize. In this issue you will find two exceptional laureates.

Prof. Lawrence R. Klein, one of the most respected macroeconomists of his generation, and one of the few with a deep understanding of the world of finance and the way it functions, has kindly taken the time to share with our readers his perspectives about the causes and implications of the recent crisis. In addition, Prof. Robert W. Fogel, a highly controversial economist, discusses his views about the long-term viability of the Chinese economic miracle.

As always, we genuinely hope that you enjoy reading this edition of the Journal and that you continue to support the publication by submitting your ideas to us.

On behalf of the board of editors

The Journal of Financial Transformation

Client-Centricity - Journal Vol. 21

A Word from the Founder & CEO of Capco:

Dear Reader,

Banks and other financial services providers have typically set up corporate structures based on their different divisions and offerings. This has long proven to be a successful strategy, because front-office experts could easily be assigned to each division. These experts were in close contact with the client, and were able to help them with all their needs — within the division.

However, as soon as clients went beyond the boundaries of the division they found themselves in a totally new environment where they had to restart their relationships with their own providers. A client would have to find out the hard way that, even though the same name was on the building and the same letterhead was used for communications, the next division knew absolutely nothing about them. This has led to more than one frustrated client in the past.

Today, financial services providers have realized that there are great benefits to giving the client a more central position. Not only does it save time for a precious front-office employee who currently still needs to go over personal details, it also provides excellent opportunities for marketing actions based on qualitative information. Therefore, giving the customer a central position may eventually lead to increased revenue per customer and to a lower turn rate.

I am sure that more than one financial services provider would appreciate these competitive advantages. Looking forward, however, financial services providers will not only see the benefits of placing their customers centrally, they will also become aware of the risks should they fail to do so. Their clients will not tolerate the lack of information-sharing within one single institution for much longer.

In this issue, our contributors have taken different in-depth approaches to how financial services providers can use client-centricity as a starting point in order to win back the hearts of clients. I hope that reading this 21st edition of our award-winning Journal of Financial Transformation will provide you with some sparkling ideas for your own business. Enjoy!

Yours,

Rob Heyvaert,
Founder and CEO, Capco
www.capco.com

The Journal of Financial Transformation is published by the Capco Institute. It provides a unique link between scholarly research and business experience within the financial services industry. It is dedicated to the advancement of leading thinking in the field of applied finance and aims to be the main source of thought leadership in this discipline for senior executives, management consultants, academics, researchers and students. The journal is a recipient of the Apex Awards for Publication Excellence 2002-2006.

With offices in North America, Europe and Asia, Capco (www.capco.com) is the leading global provider of integrated consulting, processing services and products, engineered by financial services experts exclusively for the financial services industry. As pioneers of new ways of transforming operational capability and efficiency, Capco help clients successfully increase revenue, reduce costs and enhance control.

This volume includes "A Customer-Centric Approach to Community Bank Growth", a whitepaper by J. Bryan Bennett (bbennett@insight-data.com), Founder and President, Insight Data Group **(www.insight-data.com). The paper is a study on how a community bank can use demographic data to design and implement customer-centric management and acquisition strategies. It was selected from the almost 200 submissions from academic and business leaders from around the world. Mr. Bennett is pleased to have been requested to contribute to such a scholarly journal.**

Insight Data Group helps organizations create and implement actionable customer management solutions resulting in closer customer relationships and a more profitable customer portfolio.

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A customer-centric approach to community bank growth

J. Bryan Bennett
President, Insight Data Group, LLC.

Customer-centric versus product-centric

Community banks are uniquely positioned to manage their customer portfolios in a focused manner due to the very nature of their business. The market for community bank services is usually well defined with a majority of their customers coming from the area immediately surrounding the bank or branches. Community bank services also tend to appeal to a certain segment of the population. This population is not interested in all the services a national or regional bank offers and is typically seeking a more stable, personal banking relationship. Conversely, some national bank customers are not interested in the limited services offered by a community bank such as limited ATM locations. This very nature makes it possible for the community bank to outmaneuver the big banks by better targeting customers in their community.

Banks in general tend to be more product-centric than customer-centric. Their focus is on launching new products and services rather than focusing on how they can better manage or serve their different customer segments. If you lined up the marketing collateral and websites from several community banks and removed the bank name from each, you would find that the messages are very similar across the board:
"...we are focused on the community..."
"...we put the customer first..."
"...we build solid relationships..."

The challenge then becomes how to get the message heard in a crowded marketplace offering commodity products.

Organizations that focus on satisfying the customer's needs will not only experience growth in their customer portfolio. A customer-centered approach also results in superior financial performance for the organization. This study only analyzes how information can be utilized to influence the organization's contact strategy, but a complete customer-centric implementation also involves computing customer profitability and developing a behavior-based customer segmentation schema for managing the customer portfolio.

A customer-centric approach to growth varies dramatically from a product-centric one. Based on Jay Galbraith's Star Model[1] an organization is comprised of five dimensions:

- **Strategy –** the direction the organization is headed.
- **Structure –** where decision-making is located throughout the organization.
- **Processes –** how information flows through the organization.
- **Rewards –** how people are motivated.
- **People –** the mindsets and skills of the employees.

Some of the key differences between a product-centric organization and the customer-centric one are presented in Figure 1.

With a product-centric mindset so deeply ingrained in so many organizations, it is no wonder why many find it so difficult to make the change to become customer-centric.

For an organization to create the best solution for a customer they have to focus on identifying and satisfying the customer's needs, as opposed to how they can sell them a new product. This starts with understanding who the customers are and marketing to them based on that informa-

Dimension	Concept	Product-centric organization	Customer-centric organization
Strategy	Goal	Best product for customer	Best solution for customer
	Main offering	New products	Personalized solutions
Structure	Organizational concept	Profit centers	Customer segments, teams, etc.
Processes	Most important process	New product development	Customer relationship management
Rewards	Measures	Number of new products	Customer share of wallet
		Market share	Customer retention
People	Mental process	How many possible uses for products	What combination of products is best for customer
	Culture	Open to new product ideas	Searching for more customer needs to satisfy

Figure 1 – Galbraith star model product-centric versus customer-centric organization comparison

1 Galbraith, J. R., 2005, "Designing the customer-centric organization: a guide to strategy, structure and process," Jossey-Bass, San Francisco, CA

tion. Only then can that organization deliver an effective 'customer experience.' As previously mentioned, this will result in improved profitability as the organization develops a deeper relationship with the customer, which leads to more products/solutions purchased. Additionally, the organization will benefit from lower acquisition costs as its marketing would be better targeted towards prospects that are likely to respond to the message and not just anyone. Lastly, the organization will enjoy a longer lasting customer relationship because it would be focused on satisfying that customer's needs rather than selling them a new product.

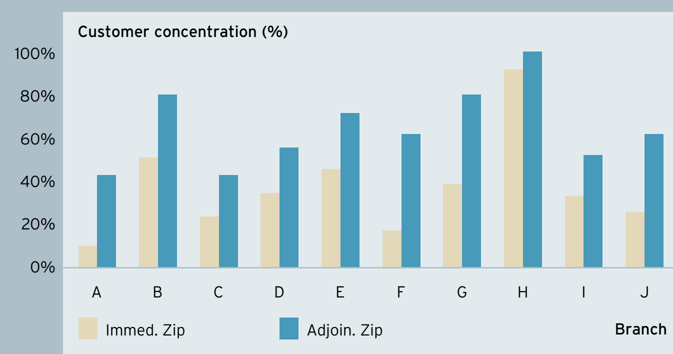

Figure 2 – Customer proximity analysis

Customer location analysis

This study includes data and analysis from the metropolitan Chicago community bank market. Chicago is a unique market at this time for several reasons: it has one of the highest community bank growth rates in the United States; there is a high incidence of national and regional banks also entering the market; and the market is still considered 'underserved' by several banking groups. Consequently, the marketplace is focused on attracting new customers by offering 'free checking' and other low/no margin products and services as the primary acquisition tool.

Branch proximity analysis

The first step in this process is to understand how community dependent the community bank is. To discover this, a branch proximity analysis was performed. This analysis will determine what percentage of the branches' customers are located in their immediate and adjoining zip codes. We utilized a stratified sample of zip code data for 10 branches of a community bank. For the bank we studied, and based on conversations with other banks, most of a community bank's customers are concentrated in the branches' zip code or adjoining zip codes. In particular, we found that in 8 out of 10 cases, over 50% of the customers fit this criterion. For these 8 branches, the customer concentration ranged from a low of 62% to a high of almost 99%. The two branches without customer concentrations over 50% were still significant, with respectable concentrations of 43% each. Branches A to E are suburban locations, while Branches F to J are urban locations (Figure 2).

With this information, the bank can examine the census demographic data for the branch area and focus their customer contact based on this information. The census data can be an effective alternative to purchasing individual level demographic data. Additionally, it will help the organization determine if further analysis is required. If the census data did not reveal any significant variances between branch areas then no further work is warranted. But if, as in this case, the census data revealed considerable variances, further analysis should be performed and an investment in individual level demographic data might be warranted.

The analysis found that there are significant differences in the demographic composition of the population in these zip codes. Some of the key variables to focus on include household income, household size (presence of children), rent versus own, and race.

An examination of the census data reveals variances that should influence a bank's communication, customer management, and acquisition strategies (Figure 3). We have highlighted the highest and lowest values for each data element. A discussion of how this information might impact strategies follows:

			Suburban locations					Urban locations		
Branch	A	B	C	D	E	F	G	H	I	J
% of family households with children	45%	46%	34%	39%	45%	11%	37%	32%	19%	20%
College: Bachelor's degree	38.30%	10.40%	7.10%	26.30%	21.40%	44.20%	18.00%	7.80%	23.70%	24.20%
College: Graduate degree	26.60%	5.80%	2.40%	12.40%	9.30%	34.00%	10.00%	3.40%	15.10%	15.00%
Asian population	6.80%	1.80%	2.20%	9.30%	1.30%	3.70%	17.20%	0.70%	13.40%	12.50%
Black population	0.60%	22.20%	0.90%	7.80%	2.00%	4.80%	3.90%	8.00%	19.20%	18.10%
White population	91.10%	65.00%	87.20%	77.50%	92.80%	87.60%	55.50%	82.80%	52.90%	54.10%
Hispanic ethnicity	2.90%	14.00%	9.30%	8.80%	6.00%	87.60%	55.50%	82.80%	52.90%	54.10%
Median household income	$114,964	$48,337	$42,917	$62,944	$69,639	$69,311	$40,212	$45,151	$33,264	$34,495
Per capita income	$52,397	$19,016	$18,341	$26,435	$27,030	$63,791	$17,321	$19,604	$22,217	$21,027
Households by income										
$150,000 - $199,999	14.70%	1.50%	1.50%	3.60%	3.50%	7.20%	1.20%	1.20%	1.80%	1.00%
$200,000 +	21.00%	1.20%	0.40%	2.60%	2.60%	13.70%	1.80%	0.60%	1.70%	1.40%
Owner-occupied housing units	91.50%	62.30%	73.50%	68.10%	82.60%	38.60%	30.30%	76.20%	22.50%	30.60%
Renter-occupied housing units	6.40%	32.40%	23.10%	29.00%	12.80%	57.10%	65.20%	21.30%	71.40%	64.10%
Median owner-occupied Housing value	$383,445	$120,696	$132,293	$159,515	$168,589	$348,495	$199,033	$137,593	$184,177	$140,392

Figure 3 – Branch customer demographic comparison

- **Households with children –** since bank product purchases are largely driven by life stage events, it would make sense to discuss college funds with customers from branches A and B rather than those from branches F or I.
- **College degrees –** customers with college degrees tend to earn more and will consequently be more likely interested in CDs, retirement funds, etc.
- **Race –** the marketing collateral, communication pieces, and website should reflect the racial diversity of the bank's customers. Creating marketing collateral for individual branch areas is probably not cost effective, but digitally printed communication pieces can be targeted to the population in the area.
- **Income –** it should be no surprise to find that a customer earning over U.S.$100,000 per year is going to be interested in a different set of products than a customer earning under U.S.$50,000.
- **Owner versus renter occupied –** renters will be at a different life stage than a customer or prospect that owns their residence. Therefore, the products/solutions they will be interested in purchasing will be different.
- **Housing value –** again, a customer with a U.S.$350,000 home is not typically looking for just a free checking account.

Share of wallet

This data can also be used for a high-level share of wallet examination. For example, if a customer only has a free checking account with your Bank A and is located in an area with high housing values, high income earners, and high concentration of children, then they either have not begun preparing for the rest of their life or have accounts with other banks and financial institutions. It is up to the banker to find out which case is true. Under either circumstance, it represents an opportunity for the bank. This is especially true for long-term customers who have not gone past the original free checking account. Their money is probably in other institutions.

Next steps

This is an example of how a little bit of information can be very powerful if put in the right hands. The proximity analysis is not very difficult. Start with a sample of data and if the direction of the data supports customer concentration, then complete the analysis for the entire customer population. Once concentration can be verified, use the free census data to compare the demographics of the populations around the branch locations. Use the demographic data to find the attributes that 'stick out' or are not consistent with the data around it. With this information, the bank can begin crafting communication strategies that better fit their target audiences. This entire process is quick and inexpensive.

With this information as a solid foundation, the bank is on the path to customer-centricity. Customers tend to spend more money at places they have an affinity to. Therefore, several actions can be taken by the bank, including: changing the marketing collateral to reflect the diversity of the population the bank serves; modifying the pictures inside the branch to reflect the population the branch primarily attracts; altering the website to reflect the population diversity and/or create customized landing pages and micro-sites that reflect the branch's population demographics; with the availability of digital printing, customized mailing pieces can be sent to each branche's customer population; and understand the cultural differences of the population the branch is serving and cater to them. For instance, some ethnic groups treat going to bank as a family event and will bring their entire family just to open a checking account. That represents a great opportunity to not only sell additional bank products/ solutions, but also have staff prepared to capitalize on the situation with gifts for the children, for example.

Next, is a deeper 'dive' into the data by examining customer profitability and segmentation. With a thorough understanding of who your customers are and which ones are more profitable, the bank can become a finely tuned, information rich customer-centric organization.