

Enabling Services and Pricing for Small Business and Consumer Relationships

With the changing economy, more and more people are starting small businesses as they move out of corporate life. Against this background, banks are challenged in identifying customers who have both consumer and business accounts and developing products, services, and pricing around the entire relationship. Since many banks maintain separate lines of business to support consumer and small business customers, gaining transparency into the entire relationship requires the use of coordinated data management and analytic capabilities. This article provides an overview of the capabilities that could be used and offers examples of how they could be applied.

Statistics released by the Small Business Administration in 2008 indicate that the United States has approximately 26.8 million small businesses employing fewer than 500 employees. Of these, about 20.8 million have no employees, and, according to the Census Bureau, over 55 percent of these “non-employers” operate small businesses as second jobs.

In the 1990s, banks came to the realization that lending to small business owners was similar to lending to individuals. Instead of analyzing income statements and tax returns, banks started to rely on the personal credit experience of the principal owner to extend credit. This approach to small business lending streamlined processes and made small business lending more profitable.

Although banks now recognize the link between the characteristics of personal and small business lending, they have been slow to link personal and small business accounts at the customer level when customers maintain both types of accounts with them. One cause of this has been the traditional organizational silos that tend to foster a lack of communication and coordination between the consumer and small business groups. A second reason is a lack of tools that would allow banks to gain insight into customer relationships in their entirety, regardless of which organizational unit’s products were used by the customer. Gaining this insight would allow banks to develop a broader range of products that could be packaged and priced to customers who have both consumer and small business accounts.

A recent customer experience study conducted by the BAI and Strategic Horizons suggests that consumers would not only be receptive to relationship-based pricing, but are indirectly demanding it. This BAI study found that 52 percent of consumers view the practice of “rewarding” relationships as a “vital” element of the customer experience; yet only 12 percent of consumers believe this occurs. Arguably, being the first to establish relationship-based pricing could result in a huge share of wallet.

Relationship pricing in this context provides a bundle of consumer and small business services in one package. The services could include:

- A single statement that provides a view of all loans and deposit products
- Preferential pricing on certain products
- Reduced and/or waived fees on certain transactions or services, such as overdrafts and wires
- Online banking capabilities with business and consumer services and features

Taking a single, consolidated view of the entire customer relationship not only provides pricing benefits to the customer and retention benefits to the bank, but also enables the bank to monitor credit and transaction risk more effectively. Often, banking silos look at transaction risk at the account level, not the relationship level. The same happens with credit risk, where it is typically monitored at the loan level rather than the relationship level.

Migrating to a relationship-based pricing strategy is challenging, particularly when the relationship includes both business and consumer accounts. The organizational silos tend to act independently and set pricing at the product level. Disparate and legacy operating systems are not easily integrated in a way that could provide a single view of the entire relationship. To address these challenges, banks are beginning to merge data from across the organization into a single repository that can be used to generate relationship statements and notices, and to guide pricing decisions based on relationship factors such as cost sensitivity, credit risk, and profitability.

There are several ways banks attempt to integrate their disparate data across multiple channels and product types. Typically, this process begins as a “discovery” project that gathers the information from multiple sources and is then housed in a stand-alone, static copy of the customer database that is used as a tool to match and pair associated customer records based on some simple parameters. This method can be useful in identifying a specific set of customers for developing target marketing campaigns or offerings. However, These stand-alone “spreadmarts” are often not architected for long-term, integrated scalable analysis. As a result, they are ill-equipped to handle the inevitable requests for revisions needed to identify a new portfolio of customers or the necessary corrections to critical source data needed to improve the quality and accuracy of the data.

A more successful model to sustain long-term benefits of integrating and analyzing discrete customer channel data involves three key components:

- Master Data Management
- Business Intelligence (BI)
- Data Governance

Master Data Management (or, within this domain, Customer Data Integration) has multiple architectural frameworks (registry, co-existent, central, etc.) and software solution vendors, but essentially offers a common tool to standardize and manage the matching and attribution of customer records. For example, these tools allow you to match and “harmonize” similar names of customers, whether business or consumer, and create a unique segmentation based on various data points (e.g., total assets, growth, demographic data, etc.) This enables a new contextual view to be created that is independent of that needed for transaction processing without requiring any changes to core banking systems.

Once common customer attributes are defined, and a repository of content is established, **Business Intelligence software tools** enable analysts to tap into this wealth of content. From simple parameter-driven reporting to tailored analytic applications that traverse multi-dimension data sets to predictive algorithms, BI solutions are available to support any of the bank’s information needs. A foundation of common data and tools is a valuable asset when measured against being able to respond quickly to questions based on the discovery of customer relationships and opportunities.

These solutions are not simply “implemented,” but are an investment in process, technology and ownership that can pay enormous dividends when managed closely. Oftentimes, **Data Governance** is the lynchpin to the success of customer data integration programs. Data governance includes overseeing the standard definitions of new attributes, administering policies for measuring and monitoring data quality, and ensuring the proper IT and business ownership and organizational accountability for the delivery of the solution value.

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To take advantage of the emerging landscape integrating the small business and consumer space, banks must look to their current information environment and prepare to address the potential gaps in their ability to answer the pivotal, relationship-based questions. In our experience, these information gaps are best addressed head-on with intent of purpose and

expected outcomes. With the right focus, technology and process, banks can achieve an integrated view of customer data that provides a competitive edge in being more responsive to the changing marketplace and in managing risk more effectively.

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