

Better Business Banking Segmentation: The Benefits of a Dynamic Needs Feedback Loop *Leveraging Customer Feedback for Strategic and Tactical Advantage*

This is the third and final article in a series that has examined some alternatives to traditional business banking segmentation. Historically, banks of all sizes have used metrics related to size to determine how best to sell to and support the banking needs of business banking customers. Typically, this has meant looking at company revenues and setting cut-offs to segment prospects and customers, e.g.: \$1 million to \$5 million for “small businesses,” greater than \$5 million to \$25 million for “small, mid-sized businesses;” and revenues of \$25 million or more for “middle market” businesses. In addition to or instead of revenues, the other size metric used for segmentation has been the number of company employees. In the first two articles, we explored other approaches to these common “size based” segmentation schemes by:

1. Understanding the lifecycle of needs the business owner and the business; and
2. Creating alternative approaches that focus on the sophistication of these businesses and their needs.

In this article, we will add a third key consideration -- developing a Dynamic Needs Assessment Feedback Loop that enhances awareness and robustness of alternative schemes. However, capitalizing on customer feedback requires more than sending out an occasional survey in response to ad hoc business needs. It requires strategic and on-going dedication to hearing, listening to and acting on feedback from the customer through a formal program. A well-constructed customer feedback program or “loop” becomes a channel for acquiring business insights about customers and what is important to them. The remainder of this article provides some thoughts on the benefit, elements and construct of a well designed and dynamic needs feedback loop.

Benefits of Customer Feedback

“You can’t be in all places at all times -- you need eyes and ears and feet on the street for you. A good voice of the customer program clones you and places you in the midst of the marketplace to get an accurate understanding in real-time.” Chris Cottle, Vice President of Marketing at Allegiance¹

Today, banks are finding that customer feedback can assist in enhanced segmentation for business banking (as well as other business units or segments) by:

- Adding new insights into overall business strategy
- Understanding the drivers and the leading indicators of changes in customer perspectives
- Leveraging customer service interactions as a way to strengthen relationships
- Improving positioning and messaging to targets and clients
- Deepening the understanding of purchase decision factors
- Broadening the depth of product offering and the breadth of client relationships

In addition to the benefits above, there are very tangible financial benefits that can include gaining additional insight on the most profitable sources of revenue from current customers and their likely future needs. This analysis and input from customers creates an opportunity to identify segments of targets and customers that have an increased likelihood of providing similar or possibly better returns.

From a human resources perspective, these insights also assist banks, particularly smaller banks with fewer resources, to know where to focus their resources and efforts. This can potentially be manifested in the development of calling lists that have a logical basis for pursuit and therefore, are more efficient and more effective.

Keys to Successful Customer Feedback Programs

There are many factors that contribute to successful customer feedback programs and make them particularly useful with respect to creating better business banking segmentation, but four are critical.

The first key factor is to attain clarity on the business opportunity to be pursued. To that end, a well conceived strategy must be developed and with specific success metrics. Oftentimes the metrics selected are related to revenue or customer profitability. However, a measure that may provide more in-depth insights on how customers really feel about their business banking relationship is total customer value. Total customer value not only includes traditional customer profitability, but also adds the value of the relationships that customers provide through referral business. A customer that is profitable or even marginally profitable that refers 10 profitable customers is very valuable. Clearly, when customers are providing a high level of referrals there is good alignment of activity with strategy. For example, if the objective is to grow market share in a specific market, industry or segment, referrals can be an excellent means of achieving this accomplishment.

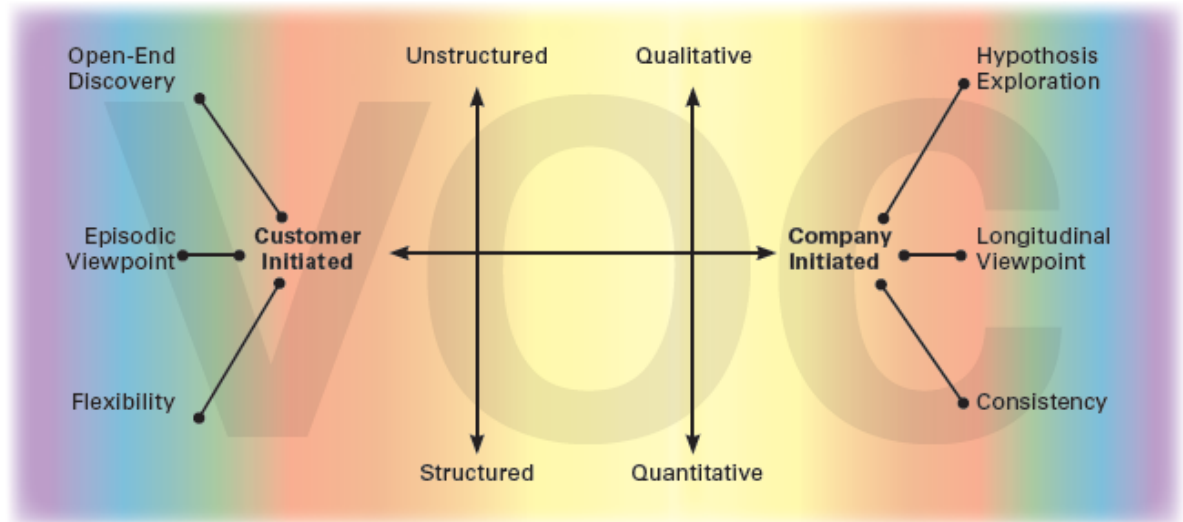
In June of 2010, American Express won a Voice of the Customer award from Forrester Research for its execution of this concept and strategy. Amex's "Relationship Care" servicing ethos centers on the idea that every customer interaction is not just a transaction but an opportunity to deepen the relationship and drive customer loyalty. Results from this approach included a double-digit increase in "Recommend to a Friend" scores, as well as the highest customer satisfaction rankings among credit card companies by J.D. Power and Associates for the past three years.

"At American Express we know great service doesn't come down to what we think about our performance internally, it's all about what the customer thinks after every interaction," said Jim Bush, executive vice president of world service. "Actively listening to and connecting with our customers is an integral aspect of our business, and we are honored Forrester has recognized our efforts." ² As the saying goes, "what gets measured gets managed."

A second key factor is to successfully separate and customer feedback from noise to ensure the analysis is meaningful. One effective way to deal with this challenge is to create and test critical value propositions so there is context for feedback received from both formal feedback tools such as focus groups or surveys or informal means that may be customer initiated interactions such as transactions or general website inquiries. By creating multiple ways of gathering customer feedback the real value is highest when predictive analytics can be applied to determine cause and effect.³ If a bank is trying to understand the impact of an enhanced cash management product and the impact it might have on increasing business deposits, this feedback is both predictive and actionable and may provide more insight than a response to a more general qualitative question such as "how would you rate the courtesy of the manager on your last visit to the branch." Well thought out ways of soliciting and gathering customer feedback can assist in getting to the "kernels of knowledge" that are most valuable. That said, a good voice of customer (VOC) program will include customer and bank initiated interactions as well as both structured and unstructured feedback.

Figure 2: The Spectrum of Customer Feedback

Gradations of customer feedback exist along unstructured/structured, qualitative/quantitative and customer/company dimensions. A good VOC program will encompass the entire spectrum of options.



Source: Allegiance and Peppers & Rogers Group

The third key factor related to a good feedback program is that results must be actionable at the target, customer and organizational level. The benefit can be at the individual customer level, at the segment level or bank-wide. As an example, if we understand the needs of customers relative to their overall lifecycle needs, we can increase share of wallet through insights on the customer's overall "buyer values."

At the segment level, as an example, if we can better understand the feedback we may be receiving from law firms and what is important to them, our law firm customers can be great referral sources and this increases the value of each of the customers in this segment as well as the segment overall, particularly vs. the value of the customer metric identified in Factor 1 above.

The fourth and final factor related to well developed feedback loop and program is that the bank must incorporate customer feedback into its culture. Taking the customer's perspective is oftentimes difficult, particularly in larger banks where so many functions and people must come together and work across organizational silos to develop products, create marketing strategies, sell products and services, provide fulfillment and operations support and service the customer. Therefore, the importance of customer feedback must become a socially accepted standard inside the bank. When the attitudes, behaviors, beliefs and values of the customer are taken seriously, the bank's ability to not only create a better segmentation scheme is enhanced, but its ability to develop competitive advantage is dramatically improved.

Evolution of Customer Feedback

Since the development and implementation of effective customer feedback loops may be new or are still evolving in many banks, there are a set of steps that can be taken to facilitate the process and let each organization adopt as they are ready. The development path that a bank can take to utilize a dynamic needs customer feedback program depends on resources, budget and where they are from a cultural perspective. These five steps can lead the way to moving a bank from using customer feedback in hindsight, to benefiting from it to provide foresight useful for better segmentation and other strategic purpose.

1. Collection of single metric (e.g. total customer value)
2. Identification of leading indicators (e.g. lifecycle needs analysis)
3. Understanding of key drivers (e.g. buyer values or decisioning criteria)
4. Measurement of business outcomes (e.g. growth of a targeted industry segment)
5. Prediction of business outcomes (e.g. product changes that will result in increased business deposits)

Figure 4: The Evolution of VOC Impact

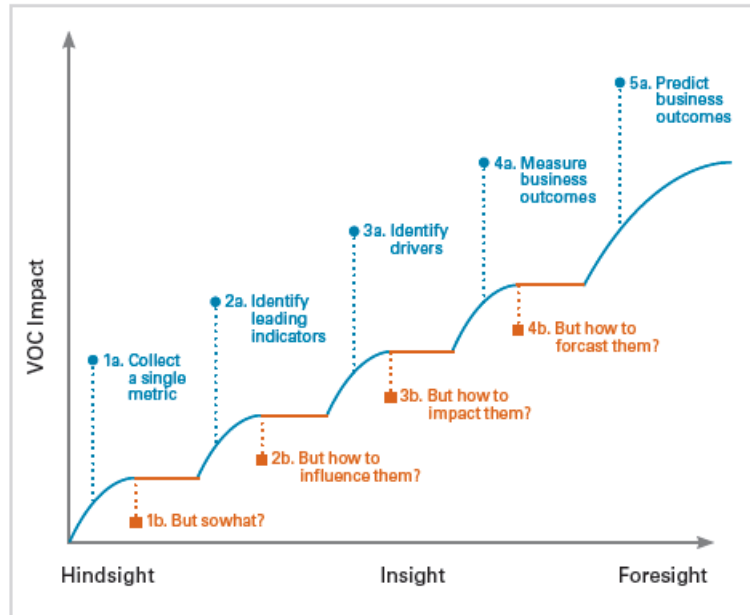
VOC programs progress along a developmental path, [1] beginning with the collection of a single metric (e.g., Net Promoter Score), followed by disillusionment and disappointment because it provides little guidance for improvement.

[2] The adoption of leading indicators of business outcomes defines the next step in the journey, followed by an unease about how to impact those indicators.

[3] A focus upon drivers of those leading indicators takes an organization to the next level, raising concerns about the tactics which may have the greatest influence upon them.

[4] When an organization links drivers to leading indicators to business outcomes, it progresses to the next phase, followed by a realization of the need to forecast changes in those outcomes.

[5] Finally, with the use of predictive analytics, companies are able to deeply understand the interdependencies and estimate future benefits. Across all these phases, the business impact is enhanced as the sophistication of the VOC program moves from an emphasis on hindsight to insight to foresight.



Source: Allegiance and Peppers & Rogers Group

Conclusion

Of the factors we covered in the series of three articles dedicated to better segmentation for business banking, the one covered in this article – implementing a Dynamic Needs Feedback Loop or VOC program may be the most important. If culturally accepted and properly executed the return on this investment is dramatic. A well conceived Dynamic Needs Feedback Loop can provide insights into single customers within key segments as well as the overall segment itself. This type of program can also assist the bank to understand the value of the customer in terms of not only what that customer contributes, but their contribution via new customer referrals. Beyond the impact and benefit to better business bank segmentation, a strong and Dynamic Needs Feedback Loop provides valuable insights and clarity to a bank's overall strategy. As a result, banks are in a better position to pursue a

number of initiatives guided by analysis that will have demonstrative impact on overall strategic and competitive positioning. Banks that understand this reality will be able take advantage of sometimes significant and measurable differences in their customers and markets to implement more effective and profitable segmentation.

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1. Voice of the Customer Industry Research Reports: Insights and Trends, Allegiance, Inc. (2009)
2. Voice of the Customer Awards, Forrester Research, Inc. (June 2010)
3. Managing Customer Relationships: A Strategic Framework, Peppers & Rogers Group (2004)