



Ensuring Organic Revenue Growth

An Interview with Keith Von Seggern

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For the past ten years, Von Seggern has worked with many of the leading banks around the world, as well as mid-sized and community banks in the US, helping them deploy technology and consulting to improve their ability to drive new, profitable, sustainable revenue growth. He can be reached at kvonseggern@carreker.com.

1. In the whole list of ways financial institutions can improve earnings, where do your clients tend to rank "organic revenue growth"?

Based on the banks with which we normally work (generally those in the \$5 to \$50 billion asset range), "organic revenue growth" seems to be among their highest priorities today.

Many bank executives are increasingly aware of the very low wallet share they have from their existing customers and are asking, "Why aren't we selling more to the customers we already have?" They seem to be getting back to basics – focusing on the customers they have. This focus is intensified by a shortage of options for either mergers and acquisitions as a way of building up a deposit base or by new business ventures in their niche of the industry.

2. What has been the recent source of pressure for banks to increase organic revenue growth?

Much of the pressure comes from competition with non-traditional or monoline financial services companies, and the increasing cost of the infrastructure needed to maintain and support effective distribution channels.

Even greater, perhaps, is the pressure on banks as customers become more aware of product options through information channels like the Internet and as changing societal values make customer loyalty increasingly harder to maintain. The challenge for bankers is to reduce the commoditization of products and services by increasing the value of a total banking relationship for their customers. Carreker specializes in helping banks create and maintain just these types of relationships.

3. How is that changing – what new pressures are emerging?

Legislation, privacy concerns, identity theft – all increase pressure as baby boomers become less interested in being directed and more interested in comprehensive services. While relationship banking is the watchword, "Know Your Customer" and other compliance legislation are placing a premium on effective customer value management.

As the pressure mounts for lower costs and increased revenues, bankers are being challenged to implement more aggressive selling practices while attempting to deliver higher standards of service more efficiently. This is precisely the combination of results that Carreker's customer value enhancement (CVE) solutions are designed to deliver.

4. It seems that many banks have tried many initiatives in this arena. Can you give some examples of those that didn't work as well as expected?

Banks have often developed campaigns that were driven by immediate balance sheet need or urgent executive attention and then devised by central marketing to drive volumes with little input from branches, or local sources. They were not targeted for the geography or local demographics. You saw campaigns like free checking, one-time discounted loan rates, cross-sell contests, or products-per-customer incentive systems. In most cases, those campaigns have been more expensive than planned and often not successful because they didn't meet the needs of the customers.

Banks have also historically spent a lot of money on frontline training. Again, however, the returns can be low if they involve offering the wrong products to the wrong customers, or when high turnover ensues.

That's why Carreker's CVE solutions are specifically targeted to help banks create a recurring value proposition from the investments they make in customer value management.

5. What are you advocating as an approach instead?

With CVE, we advocate developing an understanding of the bank's value chain, with a heavy emphasis on understanding the customer and the customer experience.

Often, when you ask bank CEOs to describe the bank, they talk about one of two things – the balance sheet or the organizational chart – in terms of branch banking and how many

districts, retail bankers, branches, or commercial operations they have. It is rare that they talk about how things are linked, the key processes that cross organizational silos, or customer segments and strategies – in other words, the value chain.

Our CVE solution allows a combination of central and local input and allow banks to target products based on customer need. Our profiling capabilities allow banks to capture information about a customer that in turn enables the development of products targeted to a specific set of customers, e.g., an affinity card for sports fans.

We advocate aligning strategic intent with behavior. We want to make sure that the bank executives are setting the goals and activities based on value rather than volume.

This approach, which is a combination of methodology and technology, addresses four key areas:

- Executive management processes and metrics
- Coordination of central direction and local autonomy – including the allocation of resources
- Frontline activities, skills, and results
- The total customer experience, profiling, and the continuity of dialog or conversation

6. Can you give me some examples of where that has worked well?

One of our most recent examples of making management processes, technology, and methodologies work together to effect a successful customer value enhancement result took place at one of South Africa's big four banks. Using our approach and technology, this bank has driven sales volumes for 200-some personal bankers from R450 million to around R800 million (about \$70 million-\$125 million USD) in less than 6 months; and they accomplished this with no incremental training required for their frontline staff. All the work has been focused on the leadership team and the management processes.

In the US, a smaller bank achieved results like these after using our approach for one year:

- Increased household value by these amounts:
A households 9.3%, B households 4.9%,
C households 7.9 percent, and D households (unprofitable customers) -14.2%
- A 44% increase in household profitability
- A 5% decrease in single service households

Another bank in the Midwest realized a 61% increase in profit, driven by increases in services per household and the number of multi-service households, after three years of employing our approach.

7. Why would banks not be willing to take the path you describe?

For one thing, some banks tend first look to changing structure. "If we just changed reporting relationships." Others look for a solution by committee. "If we just get together we can figure this out." Others work on parts of the value chain but without an integrated point of view.

And some banks tend to over-emphasize their differences (different markets, different strategies, different sales/service philosophies), when in fact our approach is designed to serve those differences, whatever they might be.

The other challenge is the past. Too many bankers are still ruefully recovering from failed CRM installations – millions of dollars spent on this technology or that – which were supposed to solve this sales issue once and for all. So we have to show how our approach avoids the pitfalls that have doomed others' past efforts.

- We provide total solution of technology, methodology, best practices, knowledge transfer and strategic execution.
- Our solution was developed specifically for the retail banking industry ("by bankers for bankers") with more than 25 years of retail banking experience.
- Our approach requires a low investment, but has a rapid ROI.

8. What would be your best suggestion for a head of retail encountering a shortfall in revenue?

We would say, first work with marketing and accounting to get a crystal clear picture on your bank's value chain – how and where you develop and deliver value to customers. Then determine where a focus on one of the four key strategies of customer CARE (Communication, Attraction, Retention, Expansion) would make the most difference. Somewhere there may be a bank that can focus on all four effectively, but that is rare. More than likely, your strategy, markets, value proposition, all combine to give you bigger potential in one area than the others. In other words, get your data solid first, and then get focused on where you can make a difference. You'd be surprised how quickly the right focus can begin throwing off revenue improvements.

One of the best things you can do is to ascertain which of your customers are the most profitable. Our experience shows that 20% or more of a bank's customers are unprofitable. And that 15%-20% provide over 90% of the value. Our solutions help the bank retain the most profitable customers, attract new customers in the top tiers, and move some customers from negative profitability to break-even every month. ■