Implementing differentiated customer-centric strategies

Retail-banker-friendly strategy development that resonates with your customers and shareholders

Experian[SM]
Decision Analytics

An Experian white paper

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Introduction

Financial service organizations frequently cite superior customer management as a key differentiator when trying to attract new clients and retain current customers. Banking operations practices such as checking product fee assessment and waiver policies, time deposit rate exception policies, holistic customer-level risk management scoring and customer servicing strategies all are part of retail banks' daily customer management processes. Your customers know if your bank's customer treatment strategies are competitive and if they make it easy to do business with your bank or not, and they likely will tell their friends and family about their experiences! A great deal of expense for retail banking is targeted toward implementing profitable, customer-friendly operating strategies expecting increased loyalty from existing customers and growth in new customers. Financial institutions employ a number of approaches, including quality programs such as Six Sigma, in efforts to institute best practices that are most visible to their customers and use this superior customer experience to enhance revenue. Successfully implementing customer strategies within a retail banking or financial services environment often fails as a result of centralized strategists missing critical information from the bank's customer-facing employees not captured in back-end systems of record (SOR). Black-box strategies that miss critical qualitative insights often fail to be completely adopted across an enterprise, dying a slow and painful internal political death. This wastes precious strategy development resource time and limited budget dollars that end up inefficiently deployed.

This white paper proposes a framework to design and deploy holistic customer-centric strategies that synthesize SOR information and qualitative banker insights that are critical to customer experience. Customer experience resulting from new strategies often are not considered when implementing pricing, fee management and other customer management processes. Specifically, this paper focuses on a best-in-class approach to designing and deploying highly profitable customer-centric strategies fully embraced by both customers and customer-facing employees in a retail bank setting, ultimately generating strong competitive advantages for that bank.

Executive summary

This white paper is intended to be a roadmap for retail banking strategists within centrally managed strategy teams. These strategists usually are charged with the responsibility of developing and implementing holistic enterprise-wide customer strategies aimed at increasing revenue, reducing customer attrition or improving the customer's experience.

The following topics are explored:

- **Holistic customer strategies** — exploiting the full value of the enterprise by synthesizing customer knowledge from internal systems of record (SOR), external off-your-firm financial information and critical qualitative input from customer facing staff
- **Pilot and adoption strategies** — process framework for full adoption and support from critical enterprise customer-facing staff
- **Measuring customer's voice** — methods ensuring implemented strategy is fully embraced by customers and internal support staff using survey data
- **Measuring competitive advantage outcomes** — measuring the long-term financial benefits and adoption of newly implemented customer-centric strategies

Returns on investing in superior customer-centric strategies easily can exceed 20 percent in the first year of implementation, but this number is compounded exponentially in subsequent years due to repeat business; new customer referrals; and the customer's general unwillingness to consider competitors, driven by increased loyalty. Investing in customer-centric strategies guarantees your bank's long-term competitiveness by differentiating your organization from competitors and by training your internal employees to proactively pay attention to what is most important to your best customers. Banking organizations that successfully implement holistic customer-centric strategies immediately improve operating efficiency. The resulting customer treatment strategies are easy to understand and consistent enterprise-wide, resulting in improved customer service scores as customers recognize you know their relationship with your firm and such strategies increase revenue by simplifying a customer's ability to do business with your firm.

Implementing banker-friendly customer treatment strategies

One of the most difficult tasks for retail banking employees is telling customers "no" to discretionary fee refund requests or pricing exceptions for deposits or "no" to new loans, particularly when the banker may have knowledge that policy has missed. Best practices to building holistic customer-centric strategies and designing complete single customer view predictive models intended to be used in retail bank branches or call centers should synthesize complete customer information and include quantitative (e.g., SOR data) and qualitative (e.g., banker insights) sources. Quantitative data alone can represent only a partial picture of what may be true reality.

As an example, occasionally fees for checking account overdrafts are charged due to internal bank operation errors or merchant processing errors and only are recognized when questioned by a customer. Often, the frontline bank personnel correct the problem for the customer, but this information is never captured in back-end SOR. There are four primary stages that should be followed when designing strategies and scorecards intended for use within retail banking operations. These include an initial build or design stage, the pilot or testing stage, feedback and adoption stage and the measurement stage (Figure 1). Following this strategy rollout model ensures your investment pays off by being embraced by the bank's customers, employees and shareholders.

Figure 1

	Strategy design	Strategy design Testing design	Adoption	Measurement
Objectives	• Implement customer-friendly and profitable business practices • Deploy treatment strategies that are flexible and intuitive to customers and bankers	• Employee engagement • Introduce change to staff and explain why • Gain employee buy-in • Separate call center and banking center approaches	• Real-time feedback • Build consensus • Explain overrides • Streamline decisions, improving customer experience	• Finalize strategy • Reduce override • Align banker compliance with incentives • Ensure customers are satisfied
Activities	• Use all SOR, external third-party data and qualitative banker interviews • Design strategies or models with flexibility to make changes	• Key employee question and answer sessions • Training and education • Introduce employees to new technology • Troubleshoot issues • Foster transparency	• Modify strategy objectively based on real world of banker • Continued education of employees	• Monitor and coach banker exceptions • Develop banker compliance reports • Measure customer satisfaction differences between test and Champion strategies

TIME PERIOD

Designing customer-centric strategies that make bankers advocates

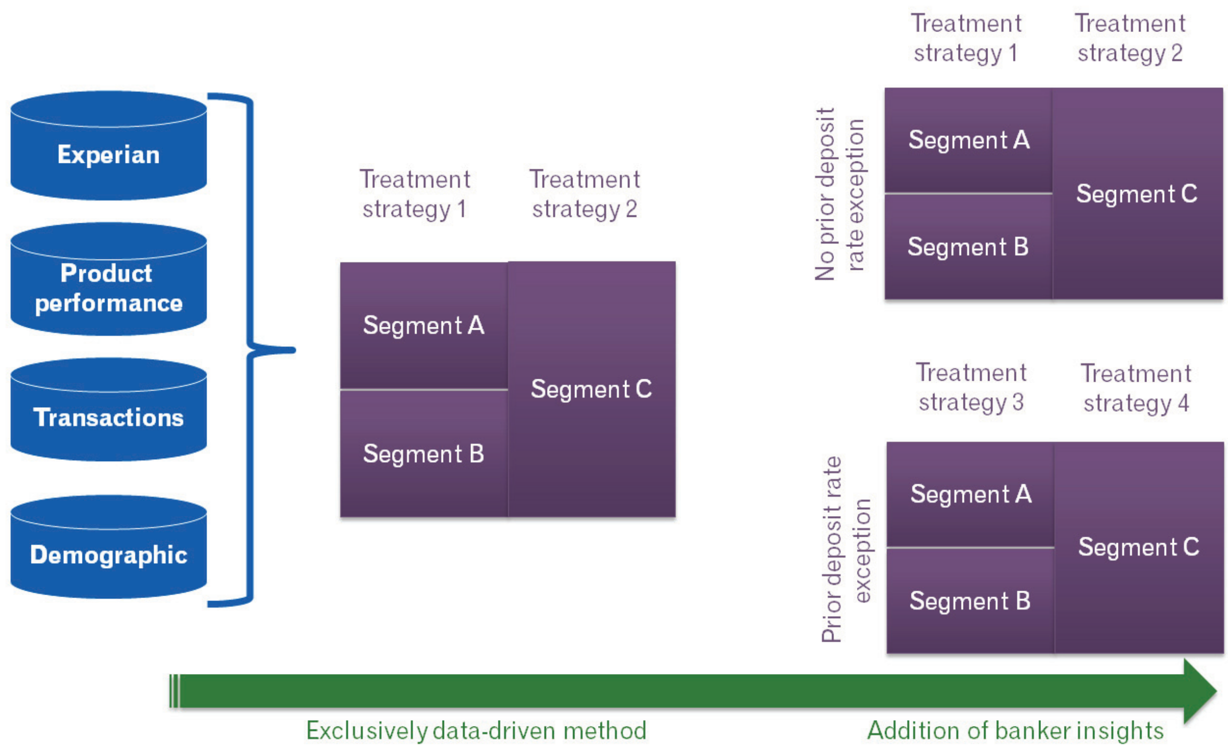
Designing and implementing a customer-centric strategy like bringing uniformity to discretionary price waivers is more than saying “no” very often. Implementing strategies that understand why the customer is asking for the exception is critical to achieving exceptional customer service. Missing the “why” can be related to competitor price actions and operation processing flaws when missing such information from back-end SOR. Customer-facing employees oftentimes have qualitative information that can augment your understanding of SOR intelligence that is otherwise incomplete.

Effective strategy designs, even when building and deploying advanced statistical scorecards, are best achieved with a collaborative and transparent process that includes frontline retail banking staff perspectives. Designing treatment strategies and servicing strategies that include qualitative insights is prudent and results in better customer management. Rigid strategies that do not allow for qualitative insights result in resistance and low adoption by customer-facing employees. This can drive off your best customers and cost banks millions of dollars in failed implementations.

Retail banks with excellent customer service often achieve success by empowering customer-facing employees to fix inadequacies of black-box treatment strategies and predictive models that miss qualitative insights only discovered through face-to-face customer interactions. Some critical steps to take into account when building customer treatment strategies and models for use in retail banking centers and call centers include:

1. **Aggregate the complete set of client information** from all internal SOR, third-party data and qualitative information, ensuring a complete relationship view
2. **Build flexibility into designs, allowing practical rule-based overlays**
3. **Use banker experiences to interpret and explain back-end data in SOR by leveraging** qualitative surveys, branch observation studies and team huddles
4. **Design success metrics to include profit targets (return on investment, or ROI) and customer satisfaction improvement**, satisfying both shareholders and customers

Figure 2



Methodologically accepted sound statistical testing, repeatable results and rigorous approaches to model building are important to use when designing treatment strategies and building models, but may not be enough to yield common-sense experiences for customers and bankers. Building treatment strategies and predictive models with the realization and expectation you will need to modify as you learn will ensure full adoption and sound customer management approaches that win new client business and retain existing clients.

A pilot and strategy adoption model that works

Often Challenger strategy metrics focus exclusively on statistical analyses as the single criteria of success and ignore qualitative measures of success. Sound approaches to Challenger strategies should include metrics that are statistically valid and repeatable, but failure based on this alone doesn't always indicate the Challenger approach is inferior to existing strategies. There are several reasons why success metrics can fail unrelated to the actual strategy itself. These include faulty test designs, poorly implemented pilot approaches, and tests that ignore and don't incorporate qualitative insights from customer-facing employees. This usually guarantees low employee support for the initiative, ensuring the pilot is unsuccessful. Do not discount the ability of employees to derail unpopular customer treatment initiatives in large and small banks alike. Adopting testing approaches that incorporate iterative learning through collaboration with customer-facing employees in branches and call centers will guarantee successful holistic customer treatment strategies and wide adoption by customer-facing employees. The piloting phase is a critical time for successful strategy implementation that demands several steps be initiated to prevent derailing successful results:

1. **Pilot branch bank and call centers separately** — Delineate test and control branches and call center employee groups and enable clear lift measurement
2. **Start and end Challenger pilots with employee engagement sessions, fostering transparency and honest feedback** — Use surveys and team huddles
3. **Actively engage key influencers** — Enable buy-in and employee adoption
4. **Establish adoption metrics to track and coach daily** — Allow rapid continuous improvement, and measure overrides in total units and dollars
5. **Analyze results and make strategy changes objectively** — Coach resistant employees by actively confronting conventional wisdom and discussing facts
6. **Be on-site during the pilot** — Conduct call listening and observe face-to-face customer interactions

Actively engaging customer-facing staff to learn and modify and align strategy designs and predictive models to the real world will improve adoption and satisfy customers, bankers and shareholders. This engagement process also guarantees that quantitatively designed strategies and models incorporate critical qualitative insights. The engagement process also allows the strategy implementation team an opportunity to confront low adoption issues with facts that result in employee goodwill, as the original design is adapted during the pilot. A collaborative approach, blending art and science, ensures complete adoption from customer-facing bankers and measurable customer experience improvements that are monetized for shareholders through improved customer retention and new customer acquisitions.

Competitive advantage and measurable customer experience

Establishing objective measures of success is critical to making sure the piloted strategy meets financial hurdles without creating mass attrition with existing customers. Regardless of what is being implemented — such as deposit products fee management policies, time deposit rate exceptions policies, customer servicing strategies, or risk assessment models and treatment strategies — it's critical that shareholders and customers are served by these strategies. Establishing clear metrics for success and accurately monitoring these metrics ensures consistent outcomes. There are several key performance indicators (KPIs) that should be used during the pilot that can assess if Challenger approaches warrant full-scale adoption. These KPI metrics include the following:

1. **Manage manual overrides** — measurement should include number of override incidences and dollar cost associated with each instance and provided to management as coaching with regular reporting
2. **Incremental financial lift for Challenger versus Champion** — Annualized ROI should include incremental costs associated with full implementation in addition to realistic revenue estimates
3. **Customer satisfaction lift for Challenger versus Champion** — Ensure minimal customer attrition impacts and verify retention assumptions
4. **Consider integrating new metrics in incentive programs** — Customer-facing management can use these metrics to institutionalize new strategies
5. **Implement continuous improvement metrics** — Monitor and periodically modify your strategy, ensuring alignment to the current operating environment

Following this implementation approach ensures the design is truly a holistic customer-centric treatment that has fully accounted for all information the enterprise contains by synthesizing quantitative and qualitative insights. Because the strategy has been objectively vetted from a financial Champion/Challenger approach using ROI and results in improved customer satisfaction, strict adherence to policy now can be enforced. Frontline banking employees, having been included in the development, now own results and can be accountable for fully implementing and adopting the changes. Fully institutionalizing the new processes with alignment to incentives is recommended, although not all organizations go to this extent. Continuous monitoring of results and continually adapting the strategy as changes necessitate is best practice.

Conclusion

This paper has put forth a framework for designing, testing and implementing retail banking customer treatment strategies and models in a way that synthesizes quantitative and qualitative enterprise customer information. In addition, the framework implementation results in franchise-wide participation in the process, minimizing tensions that arise from deployment of black-box strategies and models between central strategy teams and frontline customer-facing employees. In reality, the holistic customer management solution results from a truly enterprise view whereby your customer benefits the most. This approach will guarantee the financial institution is seen as providing intuitive, best-in-class service to customers and providing shareholders with optimal returns on investments. Adopting holistic approaches to developing and deploying customer-centric strategies by institutionalizing collaborative working arrangements cross-functionally is the key to providing best-in-class customer service and breakthrough revenue growth for financial institutions embracing such approaches.

Figure 3

Treatment designs benefiting from customer centric framework

Program type

Deposit products	Mortgage/home-equity products	Customer-level scoring
• Checking fee management • Pricing exceptions • Cross-sell/up-sell programs • Check hold policies • Checking shadow limit setting • NSF opt in	• Loan modifications • Loan servicing • Loan refinancing	• Developed for all products

Experian global consulting approach

- **Business review** — identify value creation opportunities, assess organization capabilities and benchmark processes
- **Strategy design** — create profitable decision segmentation strategies supporting goals and key performance indicators
- **Strategy review** — ongoing strategy monitoring that ensures continued value creation by improving or refining existing strategies

The above illustrates typical customer-centric treatment processes where the framework can be used to ensure successful strategy implementations.

About Experian Decision Analytics

Experian Decision Analytics enables our clients to make analytics-based customer decisions that support their strategic goals, so they can achieve and sustain significant growth and profitability. Through our unique combination of consumer and business information, analytics, decisions, and execution, we help clients to maximise and actively manage customer value.

Meaningful information is key to effective decision-making, and Experian is expert in connecting, managing, interpreting and applying data, transforming it into information and analytics to address real-world challenges. We collaborate closely with clients to identify what matters most about their business and customers, then create and implement analytics-based decisions to manage their strategies over time.

In today's fast-paced environment where developing, implementing, and sustaining an effective strategy is imperative, Experian Decision Analytics helps organisations unlock a wealth of benefits immediately — and set the stage for long-term success.

Increased revenue: Our products and services enable clients to increase revenue by providing the insight and agility they need to find and engage the right customers, target products more effectively, and grow market share.

Controlled risk: A broad range of risk-management products and services help our clients to verify identity and manage and detect fraud, optimise collection and recovery, and balance risk and reward.

Operational efficiency: Experian Decision Analytics helps our clients to quickly integrate various information and processes to enhance operational efficiency and boost agility. Our flexible, collaborative approach helps organisations increase speed to market, enhance business agility and improve the quality of customers' experiences.

Compliance as differentiation: Proven expertise lets clients use compliance as source of competitive advantage. Experian Decision Analytics helps ensure compliance with essential regulations, while helping organisations better understand customers.

About the Author

John Taylor is a senior business consultant with Experian's Global Consulting Practice, who provides financial services organizations with effective strategies to attract, retain and manage profitable deposit customers. Having spent more than 17 years in the financial services industry, Taylor understands the factors that increase competition among organizations to win deposit accounts and comply with new government regulations. He provides strategies and advice that focus clients on building deposits profitably and grow customer relationships.

Prior to joining Experian, he held senior leadership positions at Bank of America, Wachovia, Wells Fargo and TIAA-CREF. Taylor is an alumnus of Northeastern Illinois University and the University of North Carolina.

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