

ANALYTIC KEYS TO SME CROSS-SELL

BY TONY CORETTO

By improving data, analytics and multi-channel targeting, banks can digitally identify and pursue opportunities that otherwise could not be spotted or profitably served.

As the quest for growth resumes in 2015, one priority is unlocking more of the cross-sell potential with small and medium-sized enterprises (SMEs), specifically those already doing at least some business with the bank. This includes capitalizing on the lucrative interplay between business and personal accounts among small business principals.

While the collective opportunity is large, however, it is fragmented among myriad smaller clients, making it difficult to justify a direct outreach with expensive sales talent. The vast spectrum of customer profiles and needs complicates the outreach, moreover, and many marketing and sales

opportunities now are specific to different delivery channels (web, mobile, ATM, etc.).

The situation presents a clear call to improve customer analytics, targeting and lead generation in the SME space. The goal is to harness customer information to digitally identify and pursue opportunities that otherwise could not be spotted or profitably served. These skills can assist cross-sell revenue generation in three ways:

- The first is broadening and deepening single-service relationships to improve profitability and customer retention;
- The second is optimizing full-service relationships to

Figure 1: Addressing the Data Challenge in SME Banking

In an environment where success increasingly hinges on data, analytics and targeting, many banks will need to comprehensively review and improve their capabilities.

CURRENT STATE	FUTURE STATE	TRANSITION PRIORITIES
<p>Fragmented Source Data Customer data is incomplete and scattered across business silos and operating systems, limiting the possibilities for segmentation and targeting</p> <p>Limited Householding No clear understanding of the total customer relationship, including business and consumer accounts</p> <p>Weak Modeling Only rough guesstimates of business relationship potential, sub-optimizing marketing and sales resources and returns</p> <p>Limited Data Augmentation Limited use of 3rd party data, either to flesh out client profiles or for targeted acquisition</p>	<p>Consolidated Data Housed in a central repository, including firmographics, contacts and account and channel behavior</p> <p>Comprehensive Householding Profiles specific to SME/consumer relationships, adjusted for multiple contacts and addresses, and varying corporate structures</p> <p>Full Modeling of Potential Relationship potential clearly identified via sophisticated wallet modeling for improved segmentation and targeting</p> <p>Integrated 3rd Party Data Used to enhance customer profiles and support targeted acquisition campaigns for high-potential prospects</p>	<ul style="list-style-type: none"> ✓ Conduct a “data inventory” of all available internal data sources pertaining to SME/consumer clients (checking, deposits, loans and applications, business services, investments, leasing, etc.) ✓ Audit householding and account aggregation methodologies currently in use, identify gaps versus future state ✓ Review strategies, techniques and data used for segmentation and targeting, especially on relationship potential ✓ Review current usage and gaps in 3rd party data; vendors; possibilities

Source: Novantas, Inc.

- include more high-value offerings; and
- The third is reaching the many SME principals who have consumer accounts with the bank but are not yet using its SME products and services.

While these cross-sell goals are compelling, many banks continue to stumble in the analytic pursuit. Data gaps are widespread, leaving banks unable to paint a full picture of the combined SME/household relationship. The problem spreads from there to insight gaps — anticipating high-value customer needs to drive additional business. Then there is the perennial action gap — translating

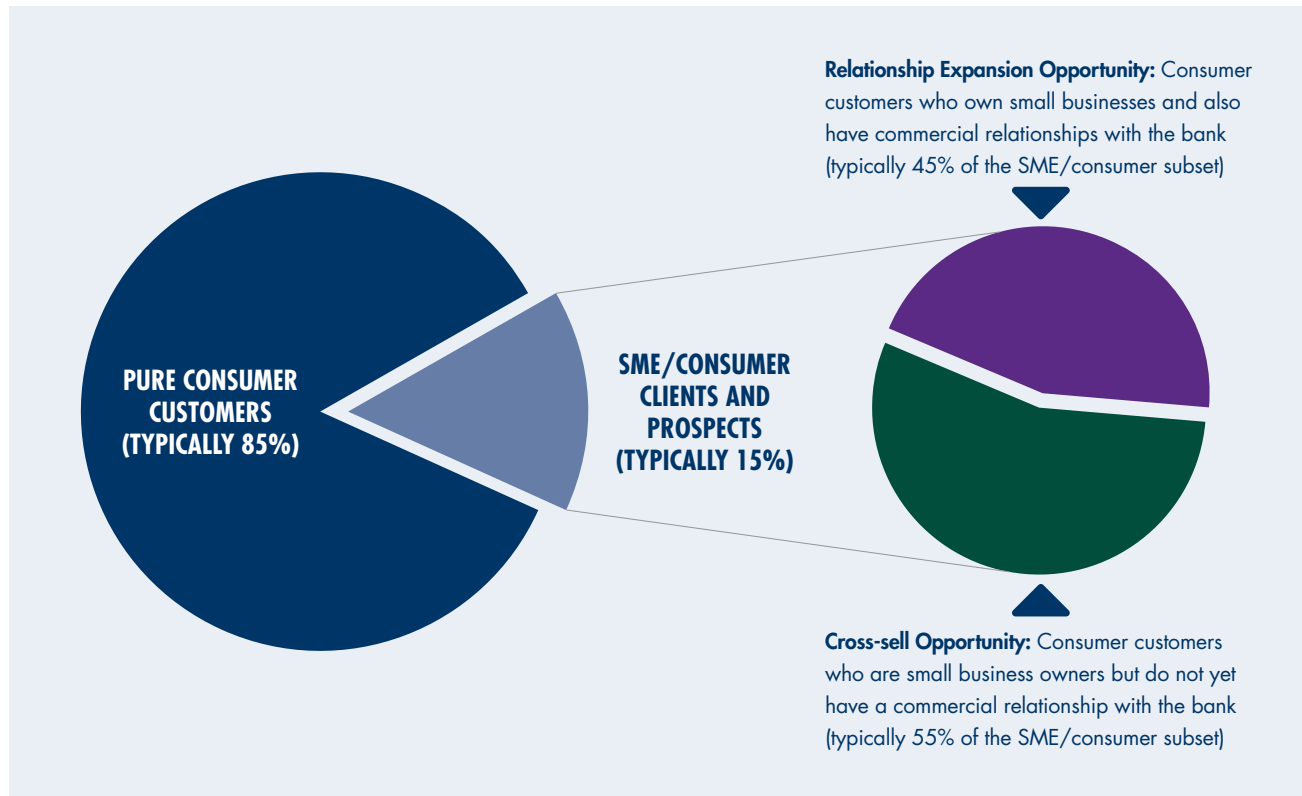
abstract opportunity into specific strategies for marketing, sales and product alignment.

These challenges need to be tackled with renewed vigor in 2015, and the good news is that the state of the art in SME cross-sell now can provide a clearer path to progress for committed players.

A typical SME banking relationship holds at least three times the potential of a typical mass consumer relationship, and banks should not resign themselves to a continued struggle to realize the tremendous opportunity in this segment.

Figure 2: Building the Total SME/Consumer Relationship

Many small business owners only have consumer accounts with a particular bank and are targets for commercial cross-sell. Others have both commercial and consumer accounts and are targets for relationship expansion.



Source: Novantas, Inc.

MISSED OPPORTUNITY

There is a marked contrast between best-in-class players and the way most regional banking companies pursue SME cross-sell today:

- Most banks are still wedded to a product-centric approach, pushing the “flavor of the month” based on product sales goals. By contrast, best-in-class marketing is informed by customer profiles and behaviors, including changes over time. It anticipates customer needs and bases offers on those needs.
- Most bank marketing is calendar-driven and channel-focused. Messages tend to be based on external events (end-of-year, tax season, etc.), with efforts only loosely coordinated among mass media, direct response, digital and internal channels. By contrast, best-in-class bankers consider both the progression of customer needs and the progression of the customer relationship with the bank (i.e., customer journey). Guided by this compass, they

use multiple channels to reach various target customers and groups, with messaging relevant to customers’ calendars and channel preferences.

- Many targeted cross-sell campaigns are based on only a rudimentary understanding of the current relationship. By contrast, best-in-class marketing uses data and analytics to understand not just the current status of the client relationship but also the future potential, or “total wallet” (Figure 1: Addressing the Data Challenge in SME Banking). As targeting of high-potential relationships is improved, marketing and sales activities become more focused and effective.

Putting all of this together, it is clear that best-in-class marketers approach SME cross-sell from a distinctly different center of gravity. The emphasis is on using data-driven targeting to prioritize opportunities within the current customer base, permitting a much more effective pursuit of revenue and growth targets.

HIGH-VALUE TARGETS

Though many banks still face a lot of foundational work with data and analytics to reach the next level in SME cross-sell, this effort can be pursued within the context of unlocking high-value opportunity. A prime example is targeting current household banking customers who also own businesses.

Within the typical retail bank, about 5% to 15% of customers are small business owners, but usually less than half of the people in this group also carry their business accounts with the same institution. Consolidating their entire banking relationship across both retail and commercial products represents a tremendous opportunity, especially since business owners tend to be far more affluent than typical retail customers (Figure 2: Building the Total SME/Consumer Relationship).

This is where data roadblocks quickly get in the way. Challenges range from capturing basic information; to assembling business/household composites; to compiling time series information on payments and channel and product usage. Lacking this kind of holistic customer view, it is difficult for banks to discern the value of the entire customer relationship, project emerging needs and set marketing and sales priorities.

To begin to turn things around, business-related data should be systematically captured at retail account opening

(for example, when a consumer lists her personally-owned business as her employer). Then when such relationships are captured (often on consumer credit applications), they should be leveraged elsewhere — few on the small business side are alerted when a proprietor applies for consumer credit, for example.

An all-important step is creating composite business/household profiles, which are critical in helping the bank to identify the top targets for cross-sell. Third-party data providers can help to plug the gaps in customer information.

Then the bank must consider product alignment. Many lack true bundled products that bridge the SME/consumer divide, which discourages small business owners from consolidating their banking relationships. One answer is to create “pseudo-bundles” of products and services (see Sidebar).

Finally, winners in SME/consumer cross-sell employ a multi-channel direct-response approach. Channels include direct mail, e-mail, statements, automated teller machines and online login pages. Messages include clear calls to action and are supported by effective follow-up from various sales staff as appropriate.

Following through on these concepts, one Southeastern regional bank sorted through its consumer customer base to identify people who also owned businesses but were not yet using the bank’s business-related offerings. For solicitations

“Pseudo-Bundles” for the SME/Consumer Client

Many SME clients take a combined view of their household and business finances. They are receptive to banking offers that support this holistic orientation, plus they see bargaining advantages in swinging more business to the bank in exchange for a good deal. Many banks, however, see product development as a barrier.

One answer is to create “pseudo-bundles” of products and services that do not rely on costly and complex changes to either underlying technology product platforms or customer service requirements. For example:

- Core small business checking plus a commercial credit card, with the option to use bonus points earned in the card loyalty program to offset fees on the small business checking product.
- Consolidated small business plus personal savings, allowing a small business owner to count consumer-side balances along with business-side balances to meet thresholds for better rates on tiered savings products.

- SME-targeted home mortgage financing concessions on rates and fees, depending on the overall level of patronage at the bank.

These “pseudo-bundles” can be implemented via a much simpler “rules engine” that sits on top of underlying technology product platforms — far less costly and time-consuming than revising the underlying platforms.

Such offerings can be marketed both from the business side (to cross-sell relationship consolidation, wealth management, or other HNW-type offerings to affluent business owners) as well as from the consumer side (to cross-sell business products for the owner’s business).

They allow the bank to meet a broader set of business and personal needs, and specifically convey to the client how consolidation supports both business growth and success in managing personal wealth.

— *Tony Coretto*

“Ultimately, a well-developed targeting strategy can transcend incremental cross-sell to improve the focus and effectiveness of SME sales teams overall. The same data and analytics can be used to foster relationship development and sales productivity across the spectrum of client profiles and marketing and sales settings.”

on new checking accounts, the response rate was roughly double that of proprietors with no current ties to the bank, and the average acquired balance was roughly double as well. Campaigns for business loans and lines of credit were similarly favorable.

A spin on this is to cross-sell business-only customers into consumer accounts.

FUTURE STATE

Returning to one of the main complications in improving SME cross-sell, a lot of opportunity resides with myriad smaller customers and transactions: it is not cost-effective to use sales representatives to individually pursue this business. In this instance, winning hinges on targeted channel communications that evoke the feel of one-on-one attention and motivate prospects to become buyers, either online or often by going to the branch to complete transactions.

This leads to an important set of interrelated management questions:

Do we have a full view of the customer? Many banks have further work to do in understanding the full SME/household relationship. The state of the art includes an in-depth understanding of account- and product level attributes (e.g., balances, fees, revenues, profitability, etc.); behavioral characteristics (including channel usage); and dynamics of the overall banking relationship. There is also more to be done with “firmographics” — understanding the traits of the businesses that customers own (such as industry type, annual sales, number of employees and year started).

Novantas multi-bank research indicates that analytic data structures remain fragmented and unwieldy at many institutions, with an average 45% of analytic department time spent just on accessing and assembling data. The problem is exacerbated as banks struggle to collect and interpret ever-higher volumes of more granular data from ever more varied data sources.

Are we able to anticipate high-value customer needs? Sophisticated data modeling is essential in understanding the total customer wallet and potential for relationship expansion, both at the segment and customer level. Considerations include likely purchase propensity for various offers; likely “next products” on the customer’s consideration list; and also attrition risk.

This is a continuous, ongoing process throughout the customer journey. The goal is to respond both to the customer’s business lifecycle stage (new business, growing business, mature business) as well as the business’s stage in customer journey with the bank (new client, activation, relationship-deepening, cross-sold).

Do we have a multi-channel action plan? Both in their business and personal lives, SME principals are following the general customer trend in paying a lot more attention to electronic channels when researching products and considering providers and specific transactions. Marketing campaigns need to be matched with the channel(s) of choice for target customers. An effective multi-channel direct response program can also include direct mail and messages in monthly statements and on ATM screens.

There is also the question of sales fulfillment. In many cases, cross-sell success will entail driving more customers to the branch to fulfill transactions. Careful preparations are needed to progressively engage online shoppers as they become more interested, and to assure smooth transitions to live interaction in the branch. In other instances, proactive sales follow-up will be needed.

STRONG FOUNDATION

All of the preparation in gathering and analyzing data will help to lay a strong foundation for SME cross-sell, including expansion of single-service relationships, optimization of fuller established relationships, and tapping SME principals via their consumer banking relationships. The key is better prioritization of effort via an improved understanding of the profiles and needs of client sub-segments within each target population.

Ultimately, a well-developed targeting strategy can transcend incremental cross-sell to improve the focus and effectiveness of SME sales teams overall. The same data and analytics can be used to foster relationship development and sales productivity across the spectrum of client profiles and marketing and sales settings.

Tony Coretto is a Managing Director in the New York office of Novantas, Inc. He can be reached at tcoretto@novantas.com.