Marketing Analytics in Retail Banking
Operationalizing Processes to Understand the New Generation of More Informed and Demanding Customers

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In a never-ending battle for consumer wallet, banks not only want all the information related to their consumers, that they can lay their hands on, they also want it earlier than their competitors. The icing on the cake would be if they can have this information even before the consumer knows what he wants!

In a hyper competitive financial services industry, the focus on understanding customer behavior has increased further. Today’s banking customer not only demands more services, but is better informed, and is happy jumping ship to a competitor offering better value or lower price.

During the past two decades, not only has the number of customer touch-points increased manifold, the categories of these touch-points have also changed dramatically. While earlier, a bank branch was the principal customer touch-point, today it is hardly the case. The void has, instead, been filled up by a plethora of non-traditional or digital touch-points – ATMs, Internet, IVR systems, social media, mobile, point of sales, and display systems, among others. American Bankers’ Association tracked the changing consumer preferences in the 35-54 age group, across 2008 to 2012, and results prove that traditional touch-points (branches, ATMs, and mails) are being taken over by digital channels (see Figure below).

Rise of digital channels in banking

Consumer preference for banking touch-points, in 35-54 age group

<table>
<thead>
<tr>
<th>Channel</th>
<th>2008</th>
<th>2010</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td>29</td>
<td>24</td>
<td>18</td>
</tr>
<tr>
<td>ATM</td>
<td>26</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Mail</td>
<td>7</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Internet banking</td>
<td>26</td>
<td>44</td>
<td>43</td>
</tr>
<tr>
<td>Mobile and phone</td>
<td>5</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Others</td>
<td>7</td>
<td>3</td>
<td>9</td>
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Source: American Bankers’ Association

Banks have started to utilize this consumer shift towards digital channels to deploy a variety of tools, and technologies to understand their needs, and behavior better, and offer products and services more in-line with their requirements. While in traditional channels, banks were limited to demographic information for their customers, use of non-traditional channels enables them to have a unique and real-time peek into the customer’s world.
**Impact of leveraging marketing analytics in banking**

There are six key imperatives for banks to study customer behavior:

1. **Understand** customer lifetime value, and profitability, and brand perception
2. **Target** right customer segments, improve hit-rates, and RoI of marketing activities
3. **Acquire** new customers by executing targeted marketing campaigns
4. **Retain** profitable customers by identifying pressure points where customers may feel disenchanted and shop for alternatives
5. **Grow** share of wallet by identifying cross- / up-selling opportunities through analysis of various customer segments and profiles
6. **Adapt** to changing consumer behavior and creating products and services in anticipation

Advanced analytics now offers banks the power to study their customers and prospects like never before (see Figure below). For instance, analytics can be designed around customer data, such as usage trends, service requests history, and branch visits, to develop leading indicators of potentially unhappy customers, who may be looking to switch banks. This information can then be shared using appropriate dashboards to relevant personnel, who can then proactively connect with the customer, and try preventing loss of a customer. The data may also be run in a prescriptive analytics program to suggest features, and services that need to be designed in existing / new products / services offered by the bank, that may reduce customer dissonance.

Banks that leverage analytics to study customer behavior have been able to significantly improve marketing outcomes (greater topline impact, ability to leverage digital channels, and faster time-to-market) without a proportionate increase in the marketing budget.

**Range of marketing analytics in banking**

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<tbody>
<tr>
<td><em>Customer lifetime value</em></td>
<td><em>Prospect segmentation</em></td>
<td><em>Website analytics</em> (click maps, fall out, and navigation)</td>
<td><em>Silent churn</em></td>
<td><em>Next best offer</em></td>
<td><em>Social media listening and measurement</em></td>
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<td><em>Customer profitability</em></td>
<td><em>Profitability models</em></td>
<td><em>Conversion and engagement rate by segment and channel</em></td>
<td><em>Proactive value-based churn</em></td>
<td><em>Channel affinity</em></td>
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<td><em>Customer segmentation</em></td>
<td><em>Campaign analytics</em></td>
<td><em>Personalized offers</em></td>
<td><em>Triggers for cross sell campaigns</em></td>
<td><em>Bundled pricing</em></td>
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<td><em>Customer relationship with the bank with customer profitability data</em></td>
<td><em>Channel mix modeling</em></td>
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### Examples

- A commercial bank increased consistency in overdraft decisions, and created bandwidth for staff, by combining customer’s relationship with the bank with customer profitability data.
- A U.S. bank improved its time-to-market for campaigns by nearly 25%.
- A top-10 U.S. bank improved its ability to predict when a customer is about to make a big purchase by incorporating clickstream data with purchase histories and behavioral patterns.
- A top-5 Canadian bank used analytics to score selected customers on a monthly basis and identify strategies to improve customer profitability.
- A bank used analytics to predict if offering a sweetener for a mortgage product to customer X would be profitable? Or will the offer be wasted since the customer would’ve bought the product anyways?
- A global bank piloting social media analytics in Spain increased positive feedback by 1% and reduced negative feedback by 1.5% within the first six months.
Successfully operationalizing customer behavior analytics in retail banking

Initiatives to develop predictive and prescriptive analytics for modeling customer behavior typically hit the following major operational challenges:

1. **Understanding customers across the purchase continuum and across multiple channels:** The purchase continuum spans multiple stages (awareness, evaluation, purchase, usage, repurchase, and advocacy) and multiple channels (both traditional / non-digital and digital). Understanding behavior seamlessly across this entire continuum is extremely hard.

2. **Managing unstructured data:** Since large parts of the data gathered, and used for understanding customer behavior are unstructured, it is much harder to work with. Rapidly changing customer tastes, preferences, and the macroeconomic environment also pose a significant challenge in modeling customer behavior.

3. **Legacy technology:** Most existing technology works with traditional channels but is often rendered ineffective with digital media. Moreover, cost of modernizing old systems to handle non-traditional media can be prohibitive.

4. **Functional silos:** Banks today offer a variety of products and services (retail banking, cards, lending, asset management, and wealth management) but are poorly integrated internally, from an organization and systems perspective.

Emerging best practices to successfully operationalize customer behavior modeling and analytics:

- **Combining banks’ internal data, with external data to build enhanced customer profiles:** Banks are increasingly integrating internal data (customer’s transaction history), with external data (demographic data, social media footprint etc.) to create detailed customer profiles. These profiles serve as a ready database to design marketing campaigns, and other similar activities. Not only that, these profiles can be kept continuously updated, as well as be used as inputs in any further analytics solutions being designed.

- **Cross-industry pooling of customer behavior modeling resources:** Customer behavior in retail banking often follows similar patterns (as customer behavior in hospitality, and travel industries, amongst others). People are taking advantage of this fact to create teams of resources that have exposure and experience of multiple such industries as this helps in creating non-linear learning curves.

- **Global knowledge sharing:** The digital revolution is fast erasing distinction between customers in different geographies. It is, therefore, imperative that different business units within banks collaborate more between themselves, and make sure that lessons learnt in one geography for customer behavior modeling are utilized in other geographies.
Real-time actions on market insights: Banks are starting to realize the power of cutting time elapsed between understanding customer behavior, and acting upon it. Not only that, they are also realizing the immediate effects of their strategies in shaping customer behavior.

Greater collaboration between marketing and analytics: Marketing experts across different product lines and analytics SMEs need to collaborate to ensure that analytics insights are taken to action and the insights themselves are actionable.

Conclusion

As customers become more aware of the options at their disposal, they are becoming more demanding, as well as being less loyal to their existing banks. Financial services firms, therefore, need to study customer behavior closely and offer relevant products and services. Rise of digital channels is proving to be a blessing for banks. Operationalized analytics is providing banks insights into customers’ digital footprints to understand their profiles better and have an unparalleled understanding of their needs. This is critical for banks to ensure not only their profitability, but also their survival.

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