



The Customer Ecosystem

For any company in the market today providing financial services directly to customers—from traditional brick and mortar banks to brokerage companies to insurance providers—success still depends on building and maintaining long-term, profitable relationships with customers. To achieve this success, financial services companies must truly understand what their customers want and don't want and must react to customer lifestyle changes over time.

As direct as these goals seem, a vast number of Customer Relationship Management (or CRM) initiatives attempted over the past ten years have yet to deliver any real business value. Instead of providing full-level integration across an enterprise, traditional CRM offerings focus on only one of the following categories of information: analytical or transactional.

CRM analytical applications, designed to work with customer information, usually stop short of turning that information into useful knowledge; in other words, these applications tell analysts where problems are, but do not provide what is needed to act upon that knowledge.

CRM transactional applications, which service customer accounts and provide primary customer touch points, typically fail to achieve their full potential because they do not provide immediate access to critical customer insight. So, today's technology marketplace consists of analytical applications that provide insight without action, and transactional applications that provide action without insight.

For years, people in the financial services industry have talked about the need to bridge the gap between insight and action by implementing a "customer ecosystem" that turns data into insight and insight into action to achieve profitable and productive relationships with their customers. This whitepaper describes the customer ecosystem, outlines the requirements, and shows how it can benefit a financial services company.

WHAT IS A CUSTOMER ECOSYSTEM?

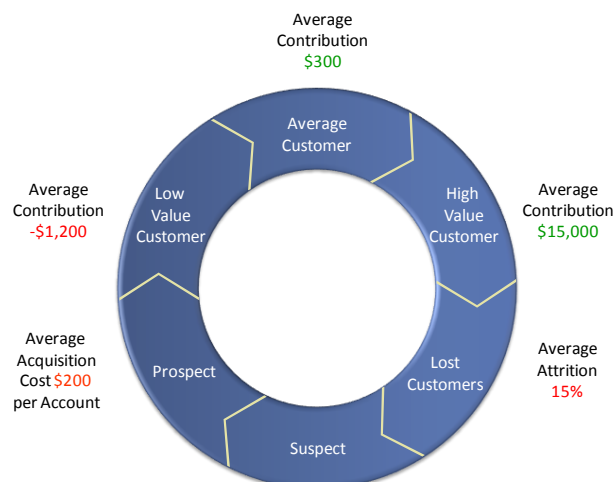
In scientific terms, an ecosystem is formed by the interaction of a community of organisms with their environment. The ecosystem has multiple, interdependent components that function as a unit. Innovators in the financial services community have long envisioned a similar environment where data, technology, people, and business processes operate in synchronization to improve customer satisfaction and business performance. The key to achieving this vision is having the capacity to discern the true nature of customer relationships in an intuitive manner. This capacity is known as “customer insight.”

The concept of the customer ecosystem can be further broken down into two key aspects: the Customer Lifecycle, and the Information Lifecycle.

THE CUSTOMER LIFE CYCLE

The relationship that a financial services company has with a customer evolves over time in a natural life cycle. This “customer lifecycle” has a number of interdependent processes.

Financial services companies often start their relationship with a customer through acquisition efforts. In marketing terms, this is the process of taking "suspects" and determining which ones are "prospects." These prospects are then made offers and converted into customers. Many banks today cast a very wide net using print and broadcast media to attract new customers. While this is an important step for establishing a brand, it tends to drive unqualified “suspects” into bank marketing efforts. Larger companies use complicated, expensive databases and sophisticated modeling techniques to directly target the desired prospects to reduce the number of potential customers. Even with these capabilities in place, response rates and the value of the new relationship are usually low. Acquisition costs for new retail banking customers average about \$200 per customer. Since many new customers start with basic deposit products, new relationships tend to be shallow and can be unprofitable.



The annual contribution of customers varies widely from low to high with an average of \$300. In most institutions, 20% of customers generate 150%-200% of the profit. High value customers tend to have multiple accounts, but the average consumer in the US has relationships with 4 different institutions. Most banks do not have the ability to understand what segments of their customer base generate what contribution or what lower value customers have the potential to be high-value customers.

Financial services companies also have to worry about customer attrition—customers turning back into suspects. Retail banks in the US, on average, lose 15% of their customers per year with each point of attrition representing up to 1-2% of net income loss. Most do not have the capability to understand the type of customers that leave, or their reasons for doing so. Unfortunately, it is often the customers with the more complicated but higher value relationships that leave. Therefore, just to keep revenue and profit even, banks have to acquire a larger number of lower value relationships.

To further complicate the customer life cycle challenge, existing processes and systems are usually isolated. Even the largest companies don't have the ability to keep track of a customer as they move from one part of the life cycle to another.

The lack of well-defined business metrics means that these problems are often invisible to bank executives. Specific key performance indicators for acquisition, contribution, and attrition are often undefined and unknown. These business and technology challenges often limit any progress toward achieving the customer ecosystem vision.

Improving Customer Life Cycle Management

To improve customer lifecycle management, financial services companies must take a more integrated, holistic approach to the problem. Improving individual parts of the life cycle means having insight into the previous and next stage.

In the acquisition stage, it is vital that companies understand what type of customer they are trying to attract in order to target the right prospects. This requires an understanding of how individual customer segments generate profit, what products they buy, and what characteristics predict profitability. With this information, a financial services company can be much more specific about the type of prospect that they want and what combinations of products and services will make that prospect profitable.

This can not only decrease overall marketing expenses, it can also increase the response rates of campaigns. The prospects that are converted will also contribute more profit to the bottom line.

It is also important to understand which prospects, as customers, would be most likely to leave. This requires that you understand what customers leave and what causes them to leave. For example, if you understand the characteristics of customers that leave because of more competitive rates, you can predict the life time value of these prospects before they are customers.

Cross-selling and up-selling processes can also be improved through integration of the life cycle. Insight into your current customer base is important in these efforts. However, it is also important that you understand what offers led to the consumer or business becoming a customer. Did they respond to direct mail? Did they come to the bank through personal relationships?

Retention efforts can also benefit from this more integrated approach. Understanding current and predicted customer contribution leads to insight into what customers you need to retain, and which customers should leave. Understanding how customers respond to cross-sell strategies and also indicate strategies for retaining the right customers.

Finally, it is very important to use customer data wisely. Treating a customer as a prospect or sending offers for products that a customer already has leaves an impression with a customer that you don't know them or their needs.

THE INFORMATION LIFE CYCLE

Financial service companies also use another type of cycle to interact with customers and prospects and to effectively manage business performance. Whether the processes are manual or automated the Information Life Cycle deals with the use of data to gather insight into customer behavior and interactions with customers. As with the Customer Life Cycle, financial institutions face a number of challenges.



Most companies have an enormous amount of data on their customers. A bank with \$2 billion in assets has over 1 billion pieces of information on their customers. Even with the best core processing applications, the quality of customer data decays over time. The data often sits in isolated systems used only for specific purposes. In retail banking, the Customer Information File or Customer

Information System has been used for years to attempt to link important customer data. However, these systems rely on end users to keep the data clean and linked. Many banks have core processing systems (mortgage, credit card, trust, and brokerage) that are not even linked into the CIF/CIS.

The quick rate of change in key identifying elements of customer data makes the problem worse. People move, change names, and change phone numbers. It has been estimated that 2.5 – 3.4 % of a bank's data decays each month.

This lack of data quality and the complicated nature of customer to customer, customer to account, customer to household, and customer to business relationships leads to a major roadblock in achieving customer insight: an incomplete view of the customer.

With this incomplete view, financial services companies often apply elementary techniques to analyze the data. Only the largest banks have been able to afford the resources and technologies needed for more sophisticated analysis.

These challenges lead to marketing offers that often miss the mark. Every day, consumers get offers for products they already have, or completely miss their financial needs. To make matters worse, employees in front-office job function are unaware of what products and services have been marketed to a customer or prospect. This “front-office disconnect” also leads to lower response/close rates on offers.

Another roadblock has to do with the bank's strategies and objectives. Although a company's executive team may have a clear strategy to win more customers and increase performance, it may never be fully translated into actions by line employees unless they have specific measurements in place.

Perhaps worst of all is the amount of time it takes for this cycle to complete. This overall business process is often measured in months. This reduces the value of the original customer data and delays feedback on which strategies are working and which strategies aren't.

THE VALUE OF DATA

Integrated customer data forms the cornerstone of the customer ecosystem. Financial services companies have rich sources of data including customer interaction data, account data, external data sources, and customer information files. This data must be cleaned and properly linked together as fast as the data becomes available.

Customer Interaction Data

The ecosystem needs access to customer interaction data from all touch points as front office personnel and customer interfacing applications provide sales and services to customers. This data commonly includes information such as channel used, date and time, services used, products offered or sold, leads generated, customers involved, customer issues, and customer preferences.

Data from customer interfacing channels provides critical information about interactions with customers that can give more meaningful insight into customers' intentions, preferences, and behaviors through actual observations. From simple examples such as an inquiry into current mortgage rates or a payoff quote, to more subtle hints, this data can be very predictive. Due to the time-sensitive nature of the data, financial services companies must be able to act on this data while it is fresh, or it loses its business value. The ecosystem needs to provide the online, real-time interaction element that is commonly missing from most customer analytical solutions to ensure that customer data leads to positive action and improves the customer experience, rather than just ending up on a year-end trend analysis report.

Account Data

Data from core processing and accounting systems such as savings, time deposits, demand deposits, consumer loans, real estate loans, commercial loans, securities, or general ledger still provides essential information that can lead to deeper customer insight. This data not only includes important account, product, and organizational information but also contains detail-rich transaction history records.

Account data provides valuable input to help create advanced profitability models and assess lifetime customer value. Transaction information not only provides tremendous insight into what customers have already done but also helps predict what they plan to do. Core processing systems also generate event data (significant balance change, insufficient funds/overdraft, and so forth) that provide fresh information and enable proactive services to high-value customers.

Customer Information Files

Customer information systems (CIF or CIS) contain valuable data collected as customers set up and maintain accounts. Key aspects of this data include customer-to-customer, customer-to-account, and customer-to-business relationships. These systems also store identification information and basic demographic information. While CIF data provides many benefits when integrating other data, the source data must usually go through extensive cleansing and enhancement.

External Data

External data comes in a variety of types from a variety of sources. This data includes demographics, lifestyle indicators, “hot” lists, vertical lists, life-stage clusters, and cluster changes. The ecosystem needs simple demographics such as age and income as well as more complex information such as hot lists—a list of individuals who have recently expressed interest in products similar to the ones you sell—and current and previous life stage. Life stage data creates groups of individuals such as “Empty Nesters” or “New Parents.” Although these groups have been in existence for a long time, recent developments have driven these life stage clusters down to a household level. In addition, several data vendors also publish lists of consumers who have recently moved from one life stage to another.

Although the use of demographics in marketing processes is not new, the accuracy of the demographic data is better than ever. Demographic data such as life stage event data needs to be integrated with customer data to predict changing customer needs.

TURNING DATA INTO INSIGHT

Individual data elements provide undeniable value in the ecosystem. Integrated data provides even greater value. However, integrating customer data is far from an easy task. Disparate systems and errors in the data typically prevent all of the data from being used by analytical processes. To turn all of this data into insight, sophisticated technologies and techniques are needed to clean the data, discover hidden relationships, and integrate it. This integrated view must then be fed into analytical models to discover and predict patterns in customer behavior. This deep insight into a financial services business help companies fully understand customer profitability, attrition, and retention.

(For more information, see our “Data Quality and Integration” whitepaper.)

INSIGHT INTO ACTION

Providing insight, however, is only one part of the solution. This insight must be turned into action to achieve real benefits. Two best practices have emerged in larger financial services companies: dashboards and scorecards. Dashboards provide a quick way to get an immediate picture of business processes. Similar to a dashboard in a car, data is displayed in an intuitive manner that allows employees to see how the processes that they are responsible for are working. In the customer ecosystem, a dashboard contains multiple information displays that show how customer processes are working.

Scorecards are a vital part of the dashboard display that show specific measurements, also known as key performance indicators (KPIs), for a specific employee role. Unlike financial condition ratios reported to federal agencies, KPIs always reflect strategic value drivers. For example, Return on Equity is a common metric used to judge financial performance, but it doesn't measure a specific driver of value. For the customer ecosystem, a KPI measuring the average value of a new customer reflects a strategic objective of acquiring more profitable customers.

In order to drive the right behaviors in the ecosystem, these mechanisms must be part of the daily job role for customer-focused employees. **That is, insight must be “in sight” of people in day-to-day operational roles.** Therefore these capabilities must be quick and easy to use.

In the business world, there is an old saying that “what gets measured gets done.” Dashboards and scorecards also provide a strong way to clearly communicate business strategy and objectives across the enterprise.

When viewing a report, graph, or KPI, people often need to understand why a specific number is different from what they expect. For insight to be truly “actionable”, a user must be able to drill down into the details. This process is typically called “Root Cause Analysis” because the user must get to the “root” of the problem. For example, if the KPI Average Value of New Customers is lower than expected, the user needs to be able to look beyond the KPI to the underlying data.

ACTIONS AND INTERACTIONS

The next part of the ecosystem has to do with using insight in day-to-day interactions with customers. Whether the customer interaction is through personal service, mail, or email, it must be driven by detailed insight from the ecosystem.

Solving the “front-office disconnect” problem entails delivery of rich customer insight to those people directly dealing with the customer. Front-office personnel must have real-time access to a 360° view of the customer that allows them to take the right action based on the company's strategies. This profile of the customer should include information on the customer, relationships with other customers, all products owned, profitability, and demographics.

In personal interactions with the customer, the first step is to find the insight on the right customer. In today's internet society, people have become used to the idea of being able to find whatever they want by searching on keywords. In a similar fashion, users must be able to search the ecosystem to find the exact information they need using *approximate* spellings of name and address, account numbers, and other identity data.

Closing the Loop

To close the loop, the ecosystem must continuously capture data from customer interactions as they occur. This closed-loop process constantly modifies the body of customer intelligence based on the results of recent interactions and all relevant historical performance. In this way, the ecosystem grows smarter over time as it learns more and more about customer behavior.

CONCLUSION

The failure rate of standard CRM implementations illustrates why analytics alone are not enough and why front-office applications alone are not enough. The two must be combined and integrated with existing systems to create an ecosystem that reacts immediately to customer interactions and impacts the business at the moment of difference instead of after the fact.

The customer ecosystem takes into account the challenges with both the customer life cycle and the information life cycle in a flexible and well-balanced business environment. In this integrated approach, innovative improvements in the information lifecycle can be applied to all phases of the customer life cycle.

The ecosystem ensures that a complete view of the customer with clean fresh data is available in both analytical and customer-facing business processes. This complete view is then used to create insight and actions that apply to customer acquisition, customer profitability, and customer retention problems.

ABOUT INSIGHT ECOSYSTEMS

Insight Ecosystems is an independently-owned, Arkansas-based customer relationship management and business intelligence company. The company was founded and is staffed by industry innovators who served as senior executives at Fidelity Information Services and at Acxiom Corporation. From our collective experiences and extensive knowledge of banking information technology, we have created a unique system that solves business challenges that bankers have faced for decades.

Insight Ecosystems provides clients with a business intelligence ecosystem that learns, grows, and changes to meet their ever-expanding needs. **Insight Ecosystems'** services and solutions empower companies to gain tangible insight into their customers, products, and financials, turning **data into insight** and **insight into action**.



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- n.** An environment of complex data processed within an analytical system that derives underlying, interdependent relationships and clearly communicates business knowledge that is immediately useful and extremely valuable.
- i.e.** It turns your data into insight and insight into action.