Customer Lifecycle Management – Financial Services

Segmenting Customers – Banking and Insurance

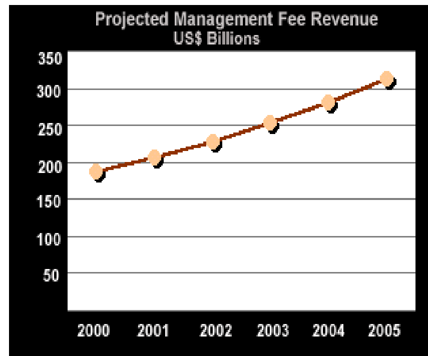
If marketing to the right customers makes sense, why do many organizations still count acquisition and increased market share as major strategic initiatives? Established banks and insurance businesses must look at their current customers for increased profit and insights. The profit comes from greater focus on the right customer relationships to retain and develop whilst the insights enable the institution to profile (the right) potential new customers it wants to attract. The basic premise is that FSP's should first look to customer profitability as a means of identifying the right opportunities for spending their marketing money. With the introduction of new analytical techniques and technology marketing itself is at a turning point. Centralized information made available to the enterprise when sensibly applied in a planned iterative manner is changing the marketer's lives forever.

If You Don't Look After your Existing Customers Someone Else Will!

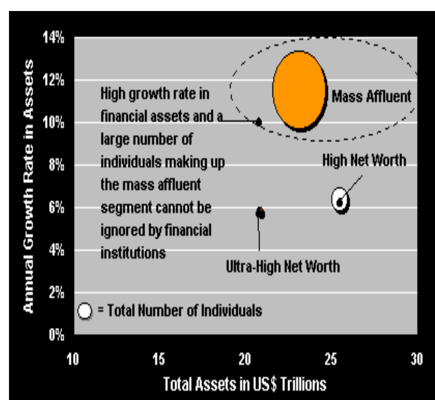
Over the past year, the hype surrounding self-directed online financial planning tools has declined dramatically. Instead, a new wave of wealth management tools have focused on providing a robust suite of online tools for the advisors so that they can effectively manage and advise a large number of clients. In essence, the focus on online wealth management services has changed from disintermediating the human advisors to arming those human advisors to play a central role in their clients' day-to-day money management.

The main objective in most companies is to generate new sales in the belief that this leads to profit or increased shareholder value and for many years this has been interpreted as meaning getting new business. The customer once on board may be passed to customer service whilst the sales specialist moves on to the next new customer. Segmentation is a means of attaining a focus for effort and is just one element in a planned marketing environment.

Undifferentiated service levels and 'the one size fits all mentality' is fading even when applied to your existing customer base.



Celent predicts that financial institutions can expect to earn over US$300 billion in management fees alone in 2005 by attracting the mass affluent customer segment, who are defined as those individuals with investable assets of between US$100,000 and US$1 million.



According to **Sang Lee**, co-author of the report, "The sudden downturn in the US financial markets over the past year has

Step 1 - Customer Strategy

Define your business objectives. It is important to begin with a clear set of goals and objectives against which you can measure results. Customer lifecycle management should be viewed as a component towards building long-term customer relationships. Your lifecycle strategy should specify the contribution defined in terms of competitive positioning, customer profitability, and related business opportunities.

Key Questions:

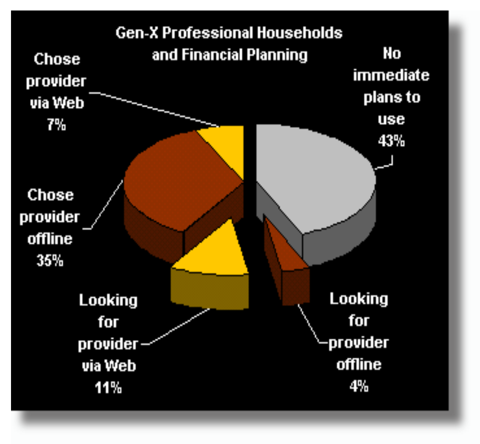
- What is your strategy for improving long-term profitability of your customers?
- What are your targets for improved business performance?
- How can you identify & reach your customers needs and expectations?
- What needs to be done to align customer-facing processes to meet your objectives?
- What steps will you take to manage the change implications of the new processes?
- How will you develop the skills and capabilities to manage the change?
- Do you have sufficient budget and time to cover training and other learning expenses?

Step 2 – Customer Assessment

A) Undertake an assessment of the existing customer database for developing your customer segments. There are many ways to segment your customer base such as general demographics and psychographics, but customer profitability remains the most effective. The idea behind segmenting customers is to model the behaviour of your most profitable customers throughout your value chain and marketing efforts – *these are customers that already buy from you, you would like to have more of them*. Finding the right customer segments may take some time, but in the long run produces the required financial benefits to justify the means.

really dampened the spirit of self-directed investing. Instead, the focus has turned to the concept of wealth management services.

Overreliance on transactions alone has burned those firms focused on no-frills self-directed investing. We expect to see a significant number of financial institutions implementing Web-based wealth management services in the hope of diversifying their revenue stream. "



GenX

42% of respondents reported having a financial planning provider, while an additional 15% reported planning to find one within the next 12 months. Two-thirds of those are planning to look for their provider online.

"With the collapse of the 1990s bull market, the future is suddenly in question, even for these young affluents," says [Matthew Josefowicz](#) , a senior analyst at

B) Once you have the defined customer segments and models in hand, the next step is to understand their needs. In order to ensure that you invest time and money in the right places, an assessment of your customer priorities by segment is a great starting point. The outcome will produce the customer priorities as viewed through the eyes of your customers – make your investments accordingly.

C) The last component under step 2 is to understand the various lifestyle needs of each customer segment. It is important to note that there will be overlap between customer segments and that there may be variances regarding importance within each of your customer segments. The goal here is to gain an understanding of those that appear most frequently and leverage those lifestyle needs as your starting point.

At the end of your customer assessment phase, you should be able to outline your customer segments, model your most profitable segments, and have clearly defined lifestyle needs by each segment.

Step 3 – Internal Assessment

Once you have identified the customer priorities it now becomes important to determine your capabilities to deliver. You should take the time to review your own resources including technology, products & services, customer facing processes, and skills & competencies.

A) **Product/Service Value-added**: ensure your product and solutions incorporate the correct package of value-added components.
B) **People Value-added**: Review and understand the cultural impact internally, what needs to change to support the customer initiative?
C) **Relationship Value-added**: value can be added to customer relationships in many ways such as new partnerships to providing rewards to your best customers
D) **Executive Value-added**: Concern for the customer starts at the top, executives must ensure their behaviour models that of the new initiative.
E) **Process Value-added**: Are your processes customer centred? Are they as efficient as they can be? Do they enable you to create the maximum economic value for your customers?

Celent and author of the report. " This anxiety about the future and interest in financial planning represents a tremendous opportunity for financial services providers. "

By targeting these customers now, financial services providers have a chance to insert themselves into the Gen-X professionals' long-term financial plans, giving providers a leg up on their competitors who will begin to target the same households as they approach middle age. To maximize the value of the Gen-X professionals, institutions must focus on compelling Web-based messaging to attract them and on creating competent Web services to keep them.

The overwhelming majority of those who reported planning to look for new providers within the next 12 months said that they planned to choose their new providers via the Web. 47% of respondents to Celent's survey cited the Web as their number one preferred way to communicate with their financial services providers, more than any other channel.

Despite the disappointingly slow pace of adoption for online insurance purchasing, consumers are turning to the Web for research and shopping for policies in record numbers, even if they eventually make the purchase offline.

Step 4 – Build the Plan

Building the plan should be relatively straightforward at this point, but it will still require some energy. Start with the customer priorities as identified in step 2 and build an action plan for each priority that will include process changes, training needs, technology requirements, and most importantly a business ROI target.

- Develop business requirements documentation and project plan
- Develop ROI targets by investment
- Develop vendor requirements documentation (if required)
- Develop training plan
- Use a phased rollout schedule
- Measure, monitor, and track

Potential Offerings

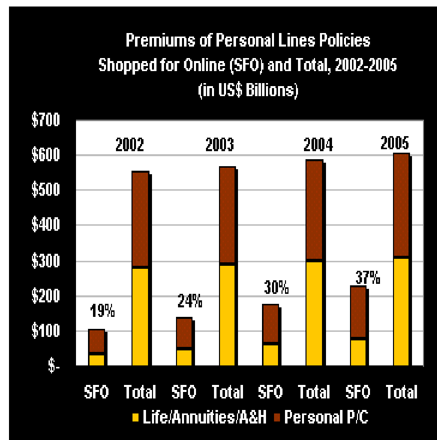
Education
Provide workshops and public seminars regarding the various lifecycle transitions. Workshops and seminars could be developed in the following areas: Buying a home, investing, stocks, bonds, the investment markets, buying a car, retirement planning, lifestyle transitioning, family planning, educational planning, financial planning, estates and trusts, insurance (life, home, auto, disability, benefits), small business programs, personal development, personal productivity technology.

Note: It is important to ensure that each individual has the opportunity to develop their own learning path for educational resources – do not treat education as standard solution set across all segments and customers.

Content
Providing highly relevant content in the form of book reviews, white papers, and research for areas of topical interest to your customers would be an asset. This content would be supplied by topical category and support or extend the offerings by your organization, including educational programs.

*Ensure that the content solution offers the ability to **push** and to **pull** personalized information*

In a new report, ***Online Insurance Sales & Marketing: Practices & Profiles***, Celent urges insurance sellers to consider the Web as a critical component of their marketing strategies and benchmark the performance of their online initiatives relative to other marketing channels, rather than sales channels.



"The Web represents a unique opportunity for insurance carriers to gain mind-share with consumers who are early-stage potential buyers, as well as mid-stage buyers who are actively comparing different offerings," says Celent analyst **Matthew Josefowicz**, author of the report. "Carriers who do not make themselves visible and attractive to consumers, either by providing rich information, including quotes, on their own sites or through aggregators and online agencies, will lose market share to those who do."

Technology
When used effectively, technology can provide the necessary infrastructure to reduce your costs and increase revenue. The key is to provide technology as it relates to your customer preferences (identified in Step 2). The list below provides some examples of what may be implemented, but it does not represent all the possibilities.

- Personalized portal interface on the internet
- Discussion and chat forums for customers
- Web-based seminars on regular scheduled timeframes
- ELearning
- Web-based assessments and calculators
- Customer support – telephone/web chat/email
- Ask an Expert – database of experts that customers may contact directly
- Stock quotes/portfolio management
- Investment transaction processing online
- Synchronization with PDA's and mobile phones
- Virtual Coach/Financial Planner network

Closing Remarks

Customer lifecycle management as a component towards building stronger and profitable relationships is not an *out of the box* solution. There are wide ranges of possibilities, but the only ones that are important are those that your customers view as a priority.

Building your lifecycle approach by understanding your existing customers is the key to effectively *locking in* future profits and enhancing your marketing initiatives through improved targeting of prospects.

It is also important to note that each process must create an opportunity for ongoing measurement and opportunity spotting. Leveraging the ongoing collection of data and information will allow you to identify potential new segments, new or enhanced product offerings, and build more effective customer-facing processes. All of this will provide a continuous innovation cycle that will consistently address areas for cost containment and revenue growth.

Celent estimates that online insurance shoppers currently account for 19% of personal lines premiums, and predicts that this number will grow to 37%, or over US$200 billion, by 2005.

Celent recommends that insurance sellers consider the primary points of Visibility, branding, rich information (including quotes), and live service when crafting their online offerings.

"Consumers need to be able to find you, either directly or through an aggregator," Josefowicz says. "They need to be able to be comfortable with your company's brand, either because it's well known to them through other channels or because they're presented with reassuring information like corporate background and financial ratings. They need to be able to get comprehensive, but not overwhelming, product information, and finally, they need to be able to get help through phone, email, or live chat if they have questions."

Research information obtained from www.celent.com