

January 9, 2007

Customer Retention Is A Process, Not An Event

by Mary Pilecki

BEST PRACTICES

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Includes Forrester user interview data



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Customer Retention Is A Process, Not An Event

A Four-Step Cycle For Improving Customer Loyalty In Financial Services

by **Mary Pilecki**

with Sharyn Leaver and Mary Ann Rogan

EXECUTIVE SUMMARY

Financial services institutions (FSIs) are once again focusing on retaining their existing customers, but with little success. Given a lack of clear metrics on what attrition is and no enterprise focus on the problem, FSIs are reactively rather than proactively trying to hold onto customers. To achieve success, FSIs should think more strategically about retention by baking it into every step of the customer life cycle: target, acquire, service, and develop. Smarter use of the technology tools available, revisiting processes to improve the customer experience, and ensuring the organizational culture supports retention are all ways to improve attrition rates.

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Forrester interviewed 16 user companies and other field experts: Austin Logistics, Branch Banking and Trust Company (BB&T), Corillian, Econiq, Epsilon, Fair Issacs, Fidelity Investments, Fifth Third Bank, Getronics, Harland Financial Solutions, Harte-Hanks, Nomis Solutions, REI, Targetbase, Unica, Wells Fargo.

Related Research Documents

["Financial Institutions: Fix Account Opening"](#)
October 4, 2006, Best Practices

["Capitalizing On Banks' Sales Opportunities"](#)
June 19, 2006, Best Practices

["Trends 2006: Retail Financial Services"](#)
February 7, 2006, Trends

["Customer Advocacy: The Secret To Loyal Financial Services Customers"](#)
August 1, 2005, Forrester Big Idea

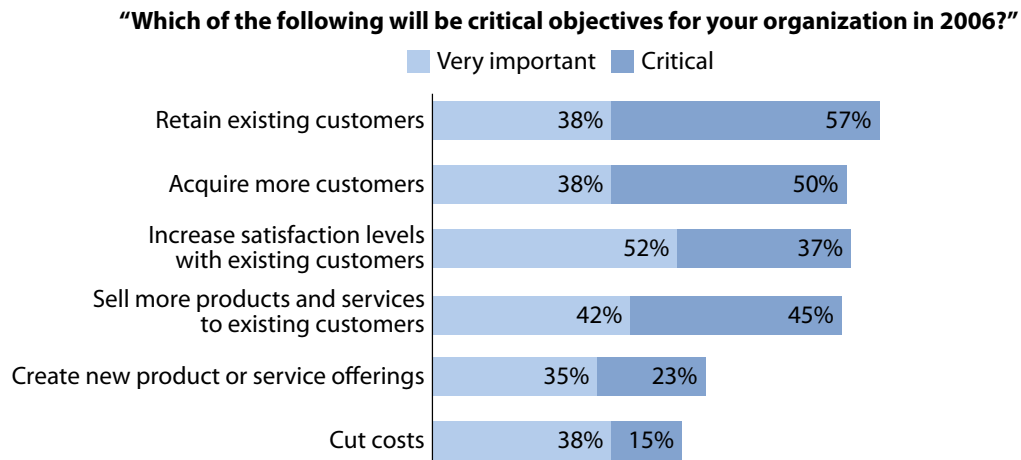
TARGET AUDIENCE

Business process and applications professional, marketing leadership professional, strategy professional

RETENTION IS STILL A REACTIVE SPORT

While retaining customers is a stated critical priority for FSIs (see Figure 1), and despite the opportunities available with today's technology, many FSIs are still treating it reflexively — reacting when it may already be too late. Focus on retention is growing steadily in FSIs, but little actual progress is being made. The urgency to retain customers is growing as:

- **Financial institutions face broader competition.** Retailers like Wal-Mart Stores and Home Depot are actively seeking banking licenses and can offer significant convenience to their customers, given their broad distribution networks and frequent buyer patterns.¹ Service providers, including H&R Block, are developing savings account products.² Monoline lenders, such as mortgage company NHB Holdings and Volvo Commercial Credit, are applying for thrift charters to expand their offerings.³ In addition, investment firms like Ameriprise Financial and A.G. Edwards & Sons continue to purchase banks to broaden their product lines.⁴
- **Mergers and acquisitions cause customers to reassess loyalty.** Mergers and acquisitions expand customer bases, but holding onto those new customers can be a significant challenge. The product and service changes can often be the catalyst to propel customers out of the inertia they've felt to go and find a new institution. Banks that have been actively acquiring are now recognizing the need to grow wallet share within their new customer base to help retain these customers.
- **Switching financial providers becomes easier.** Banks look to online bill pay and broad customer relationships as ways to keep the customer “sticky” — less likely to leave. But new processes and tools today are facilitating changing institutions. Investment firms obtain one or two signatures from their new clients, and then handle all the asset transfers from the prior company. Banks offer a process to initiate changing a payroll direct deposit directly, rather than having the customer do the work. Even online bill pay has become simpler to set up, with common payees already in a database, requiring the customer to just enter their account number with the vendor. In fact, new products from Yodlee and Intuit were recently announced to help with switching banks for bill pay.⁵

Figure 1 Financial Firms Focus On Customers

Base: 60 decision-makers at large North American financial services firms

Source: February 7, 2006, Trends “Trends 2006: Retail Financial Services”

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Source: Forrester Research, Inc.

Retention Tactics Need To Become More Strategic

Most institutions are coming back to building strategies for retention after the tremendous focus on acquisition during the past five years. But these strategies are often haphazard, yielding poor results. Even those institutions that are getting proactive about retention — using analytics to determine which customers are likely to attrite — aren’t seeing successes. Why not? Retention is being addressed as a project, rather than a guiding principle. As a result:

- **There is no common definition or measurement for attrition.** What is attrition? Is it a customer actually closing his accounts and leaving the organization? Is it her average balances dropping dramatically? Or is it a reduction in normal activity? FSIs have different measures, and even within lines of business (LOBs) they measure attrition differently. Some of the various metrics include measuring accounts on file, balances, households, and profitability. Without a common measurement, it’s tough to look at attrition across the enterprise in an organized way.
- **Tactics address products, not customers.** LOB managers are often still looking at accounts on file, rather than on customer relationships. An auto loan being paid off early reduces the number of accounts, but if it was paid off by a new home equity loan relationship, it was *not* attrition. This myopic view extends to retention efforts. LOBs employ individual tactics that may conflict. Today a customer can receive two offers from their FSI within a short time span — one that recommends consolidating their debt into a home equity loan, and the other offers a loan balance transfer rate for their credit card.

- **Staff members don't have timely, relevant offers to make.** Representatives charged with reaching out to these potential defectors often don't have relevant offers to make, or they actually end up facilitating the churn by becoming the catalyst that causes the customer to finally act after a period of inertia. A branch sales representative who calls a customer after a large withdrawal may first ask why the withdrawal occurred, but if the customer has moved the funds to an investment firm, it's generally too late to change their mind — even if a call can be set up with an investment specialist in the short term.
- **FSIs try to retain everyone, not just profitable customers.** Time is spent chasing customers who the FSI may not actually want to retain if the relationship profitability is not checked first. But the core issue here is the poor profitability measurements that FSIs have today — again, generally done on a product versus customer basis.

BEST DEMONSTRATED PRACTICES: BAKE RETENTION INTO THE CUSTOMER EXPERIENCE

To uncover best practices for driving retention, we spoke to several successful FSIs like Fidelity Investments and Wells Fargo as well as leaders in other industries — like REI in retail — that have begun to crack the retention code. One key theme emerged: While focusing specific efforts on retaining customers is important, it must be done in the context of the overall customer experience. The typical customer life cycle of a financial services customer includes opportunities to improve the customer experience at every stage (see Figure 2). Therefore, Forrester has gathered best practices for each stage in the customer experience life cycle (see Figure 3):

1. *Target* the right customers with the right value proposition.
2. Start a positive relationship through *acquisition*.
3. Incorporate customer advocacy into day-to-day *service*.
4. *Develop* relationships to increase stickiness.

Target The Right Customers With The Right Value Propositions

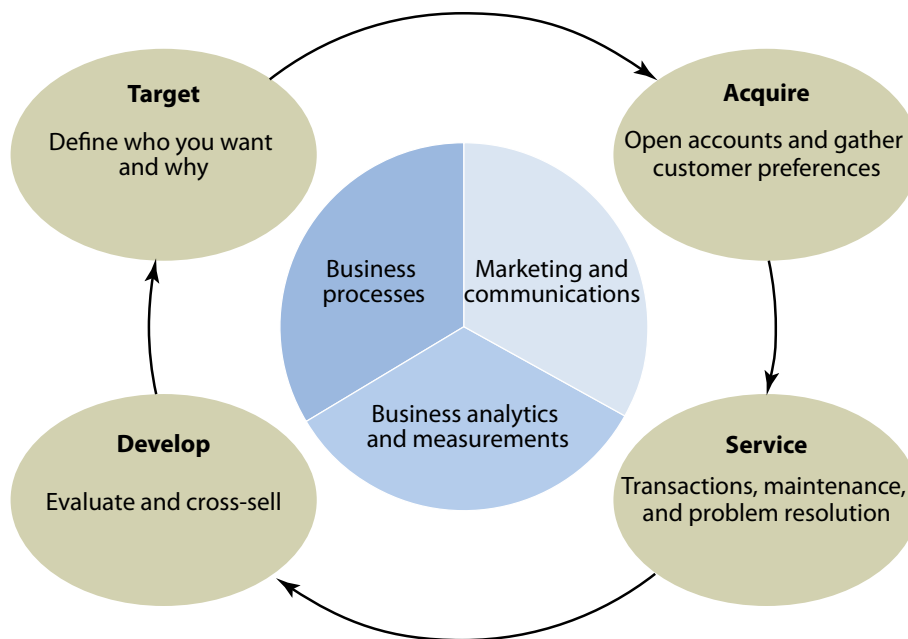
Rather than trying to acquire for the sake of acquisition, define the customer types you desire — or, taking the opposite perspective, those you don't want as clients. Once goals are set, marketing efforts can be targeted toward the right segments. The following best practices will get you started:

- **Define desired customer segments.** Data analytical tools can help you evaluate your existing customer base and determine who is profitable and who isn't. Creating segments of these customers with similar characteristics enables developing custom plans. In 2005, Best Buy stores analyzed their customer transaction data and determined that there was a segment of

customers who were “serial returners” and unprofitable. As a result, Best Buy has “pared some less desirable shoppers from its mailing lists and has tightened up its return policy to prevent abuse.”⁶ At the same time, Best Buy created five personas, with names like “Buzz,” “Barry,” and “Jill,” to focus sales efforts based on distinct needs and behaviors. Sales associates are trained to recognize customers from these groups as they enter the store and engage them with specific questions. Using these segments helps Best Buy get closer to a customized customer experience that is different than the tech-speak found at most electronics retailers.⁷

Retailers are using their online shopping sites to help gather information on customer preferences. Web analytics technologies are helping them to identify key shoppers and their needs and interests, facilitate ways to better serve them through personalized service, and create targeted, relevant messaging.⁸

Figure 2 Customer Life Cycle



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Source: Forrester Research, Inc.

Figure 3 Tools That Are Required To Manage The Customer Life Cycle

Analytics and measurements	Target	Acquire
	Service	Develop
Marketing and communications	Target	Acquire
	Service	Develop
Processes	Target	Acquire
	Service	Develop
Engaged employees	Target	Acquire
	Service	Develop

- **Test, measure, and revise.** Don't be afraid to test new targeting tactics and "add, change, or delete" them based on results. Austin Logistics calls this "experimental design" — trying to determine the cost benefit of a particular offer and its value long-term. These efforts are iterative and require good measurement tools upfront to determine what is working and what isn't. Track each of the activities separately, but look at the overall results to determine if combined efforts may be effective. A good example of this is the big trend of banks offering free checking in the past several years to acquire new customers. While these programs were very successful in bringing in new business, the results need to be measured in the long term — what were the average tenure, profitability, and share of wallet of these clients? Overall, did banks acquire the right customers at the right margins and put them in the right products?

Don't be afraid of the complexity that these types of targeting will create. To attract a more-defined base of customers, the amount of information and number of steps will naturally grow. To avoid common mistakes, follow these guidelines:

- **Don't insist on one segmentation scheme.** Customers' financial needs and attributes are complex, so you may find multiple schemes appropriate. For example, segmenting by income only gets at one level. By creating a subsegment of affluent customers who prefer convenience over price and service, organizations can create more-defined messaging.
- **Don't throw away test results.** This is an iterative process, and it's possible to learn from most all experiments. Record all the elements that are involved in the test as well as the results, and use the information to build a database of programs against which you can measure new programs.

Start A Positive Relationship Through Acquisition

The acquisition process sets the tone for the relationship, yet it is often painful for both the customer and the organization.⁹ Account opening takes too long, product pricing is generic, and the sales representative has few tools to make the customer feel special and valued. Best practices that FSIs should acquire or develop to enhance this life-cycle stage include:

- **Value- or relationship-based pricing.** Most financial institutions today don't have the capability to price retail products at acquisition, or based on the customer's relationship or potential lifetime profitability. While there is significant interest in this area, most of the success has been seen at the product level or in monoline organizations. Nomis Solutions works with its lending clients to understand customers' price sensitivity and target the loan rates accordingly. For example, home equity prospects with a predicted likelihood of high use may get a different initial rate offer than those with a predicted likelihood of low use. FSIs that want to do this on a relationship basis face the challenge of first having a common customer view and profitability measure.

- **Universal enrollment process.** Despite available technology, it's not easy to open multiple accounts simultaneously or even to add an additional account for an existing customer. Most products have different processes, making the account-opening process complex and time-consuming. Making this easier for customers and sales reps should be a high-priority goal for FSIs, as industry research indicates the more products a customer has, the more loyal they are. Forrester advocates for a universal enrollment process that works across channels and LOBs — reusing known data to simplify and shorten the required steps.¹⁰
- **Onboarding programs.** The process of communicating with new customers in a targeted, managed program — onboarding — is one that FSIs are taking seriously to improve overall share of wallet.¹¹ A key component of these programs is the cross-selling effort, which, as noted above, enhances overall retention when successful. But another value of the efforts is the relationship and tone established from the periodic communications. For example, having a branch representative call the customer to ensure her new checks and debit card were received can be an extremely valuable tool to retain customers who are focused on service.

The biggest mistake that firms make when creating or revising processes is trying to do everything at once. In the siloed world of financial institutions, it makes sense to enter into these programs on a step-by-step basis. This also allows for reworking programs and processes that aren't perfect the first time. Begin a universal enrollment process with one channel, then expand. Look at relationship pricing across two products, then add more. And roll out onboarding programs across product lines one at a time.

Incorporate Customer Advocacy Into Day-To-Day Service

The day-to-day transactions across the channels are the most common interactions that FSIs have with their customers. Whether it's checking online banking to see what checks cleared, calling to make a trade, or stopping by a branch to change an address, customers leave each interaction with an impression of the institution. These impressions have a direct impact on customer satisfaction and advocacy, ultimately influencing decisions to recommend the institution to friends or to make additional purchases. Retention and revenue growth can be driven by customer advocacy, so incorporating its tenets into day-to-day service is important.¹² Service experiences can be enhanced through several methods:

- **Common processes.** Customers have channel preferences, but they also tend to use all the channels.¹³ While the branch is the most popular for service transactions, customers have developed expectations that the information they get and the way activities are performed are equal — no matter through which channel they do it. They also want to be able to perform a transaction in one channel and have the other channels know about it: For example, reordering checks online is simple, but if the customer is checking on the status, he needs to be able to call the contact center and have that representative see the order details. KeyBank of KeyCorp

is very effective at building common processes across channels, including account opening.¹⁴ Ultimately, not only will banks that are successful here see improved retention, they will also see a reduction in change management and IT application costs.

- Relevant offers.** The better your customer base is segmented, the more relevant the offers you can make them. The ideal is the ability to understand what products a specific customer has; look at her transaction behavior, credit score, bill pay activity, and life events; and make an offer specific to that next need. Even if you can't work a "segment of one," working with sub-segments to define offers is a positive step. In addition, take advantage of the customer interaction and make an offer relevant to the transaction being performed or to the customers' near-term needs. Data analytics are very effective in determining the next product to offer, but sometimes visual or verbal cues can help as well. For example, a bank teller who notices his customer has a pile of envelopes that look like bill payments to mail should be able to quickly check to see if the customer has online banking and bill pay and make the offer if not. The relevancy is clear, given the pile of envelopes.
- Faster problem resolution.** Many organizations are focusing on improving the processes around problem resolution, with the goal of reducing the number of customer contacts that are required to fix the issue. All the tenets of customer advocacy support this effort (see Figure 4). Making it easier to fix problems and doing it in a way that exhibits the FSI has the customer's best interests at heart will not only help retention, but will help employee engagement as well. Fifth Third Bank is working on a variety of reactive and proactive strategies to improve retention, and a primary focus is raising the first contact resolution rate and the process behind escalated issues.

Figure 4 Improving Problem Resolution Helps Customers Feel Their FSI Is An Advocate

Advocacy component	Customer's view	Improving problem resolution
Simplicity	My financial provider simplifies my life.	<ul style="list-style-type: none"> Fast, easy steps to report an issue Return a tracking number
Transparency	<ul style="list-style-type: none"> My financial provider shows me fair rate and performance comparisons. My financial provider makes the rates and fees it charges crystal clear. 	<ul style="list-style-type: none"> Explain why a fee is incurred if that's part of the problem Ensure fees are clearly stated at the point of transaction
Benevolence	<ul style="list-style-type: none"> My financial provider is always on my side for any problems or concerns I have. My financial provider is willing and able to assist me. 	<ul style="list-style-type: none"> Teach staff to empathize when there is a problem Build a culture of "making it right"
Trustworthiness	<ul style="list-style-type: none"> My financial provider would do what's right for me, even if not regulated. My financial provider always honors its promises. My financial provider goes out of its way to protect my privacy. 	<ul style="list-style-type: none"> If fee rebates are appropriate, do it immediately, without the customer asking. Followup as promised, even if there is no resolution yet

It's important to develop service-level agreements (SLAs) when working on improving servicing activities. While most employees are trying to meet expectations, the volume of transactions sets team members up for mistakes and oversights. Creating SLAs that are measurable and trackable not only helps to set customer expectations, but becomes the metric by which your service improvement is measured. But avoid these common mistakes with SLAs:

- **Don't make them unachievable.** Setting an SLA for 24 hours so that you can advertise to customers about your speed will only worsen a relationship if the expectation isn't met.
- **Don't make the reports too complex.** Ensure that your SLA reporting clearly tells the story — what activities are being handled on time, which ones are problems, which areas are backed up, etc. Reports need to be clear and simple but with the appropriate data behind them. It also shouldn't be difficult to perform analysis to determine where root causes might be.
- **Don't forget to set up timers and alerts for imperative SLAs.** Enable warnings in advance of missing critical SLAs to give team members a chance to meet the deadline. Use available tools to create dashboards for easy monitoring.

Develop Relationships To Increase Stickiness

Growing the customer relationship is a revenue goal for FSIs — increasing share of wallet. But an additional benefit of a broader relationship is the increase in stickiness — more products make it harder to leave. Taking cross-selling tactics and improving them with a customer experience viewpoint can help deepen the customer relationship. Here are some processes to consider:

- **Profitability evaluation.** Before actively engaging customers in cross-sell activities, it's important to re-evaluate their profitability or potential value. Use this time to decide who to keep, and who to let go easily should they make the decision to defect. Austin Logistics works with one credit card issuer that determines how to handle customers calling to close accounts through an initial profitability measurement defined when the caller inputs her credit card number into the voice response unit (VRU). If it is a high-value customer, the firm may route the call directly to an experienced rep, while if it is an unprofitable customer, she will be routed directly to an automated function that facilitates the closing without human intervention. In this case, not only is the card company smart about who to keep and who to let go, they even reduce the cost of the closing transaction through automation.
- **Alerts and triggers.** Use data analytics to track certain activities, and then alert appropriate processes when needed. Examples like tracking large deposits and alerting on those outside of a normal individual threshold are commonly used, but predictive analytics have evolved to successfully identify transactions that may put a customer at risk — earlier than in the past. For example, reviewing the transaction behavior of customers who have left the organization for a period of time prior to the defection helps identify behavior patterns of those likely to attrite.

Once known, alerts can be generated on existing customers if these patterns start to appear. The earlier an FSI can catch dissatisfied customers, the better chance they have to retain them. Unica is using their predictive analytics and event-based marketing solutions to help customers “fill in the white space between customer interactions” by sending relevant email messages, or alerting a representative to make contact for a check-in.

- **Financial check-ups.** Offering account reviews to customers can be a very effective tool to retaining them and growing their relationships. Banks like Wachovia try to develop a financial profile on all new customers as they open a checking account, and investment brokers periodically meet with their clients to review their portfolios. Not only is this a good opportunity to interact with the customer, FSIs can take advantage of the time to determine if there are better products for the client, opportunities to consolidate relationships from other institutions, and to develop financial goals with the client. But these can be time consuming and expensive interactions for FSIs. To get the most for the lowest cost, FSIs should acquire the appropriate technology to support these meetings, including online financial profiles that can be stored, updated, and accessed by appropriate reps across the enterprise; ticklers integrated with calendars to enable easy follow-up; and out-of-the-box outreach programs to facilitate making the customer appointments.

A non-FSI example: A large telecommunications company’s mobile division actively calls customers whose activity is outside of the guidelines of their plan — either to upsell them into a plan with more minutes at less cost to the customer or to downsell them to a plan with fewer minutes at less cost. Either way, the customer comes away with the feeling that the company is doing what’s best for him, not the organization.

- **Lead and referral management.** Automated tools for lead and referral management are an important investment for FSIs. With the broadening product lines and resulting complexities, specialists are required more often than not. So, how do you get alerts and customers to the right specialist in time to take advantage of the opportunity? Automated lead management is readily available, with rules engines to help prioritize, check capacity, and route to the best available representative to handle the lead. Vendors like Unica and Pegasystems offer these tools, including manager dashboards and the ability to provide feedback to the originator.
- **Consider establishing loyalty programs.** While rewards programs have been actively used with credit cards, only recently have FSIs begun loyalty initiatives around other products. MasterCard’s recent announcement that it will allow member banks to offer rewards points on deposit and investment account balances, as well as on bill payments opens a new door to FSIs for building loyalty programs.¹⁵ The outdoor equipment retailer REI uses a somewhat different approach, as it is the largest member-owned cooperative in the country. REI invites shoppers to become members for a one-time cost of 15 dollars and then pays an annual dividend to members, usually equal to about 10% of their purchases that year. Redeemable for cash or store credit, most dividends are used to make additional purchases, creating an income stream and long-term customer retention.

BUILD AN ORGANIZATIONAL CULTURE THAT IS CENTERED ON RETENTION

To complement the process and technology highlighted, it is critical to ensure your organization actively supports retention efforts. Success will be limited unless the culture actively embodies retention ethics. Key areas to consider include:

- **Use an enterprise approach to targeting.** To get the most out of the analytical models, approach targeting from an enterprise view, using common segmentation schemas. If your overall goal is to own a large piece of the customers' wallets, then the LOBs need to be aligned by how their products can appeal to the targeted customer. If individual LOBs approach reaching out to customers and prospects with unique strategies, the results may include finding customers in need of or interested in a single product.
- **Revise manager incentives to support collaboration.** Most product manager and LOB manager incentives today reward based on the performance of the single product profit and loss. So why would a manager work to price their product based on the customer relationship? What is the benefit to the home equity product manager to offer a discounted loan rate to a high deposit customer when all she gets is a smaller incentive? To reward collaboration, compensation programs need to be redesigned in a manner that pays for overall division success — e.g., for product bundles, division profitability, or customer share of wallet measures.
- **Incorporate advocacy into the culture.** The four elements of customer advocacy — benevolence, trustworthiness, transparency, and simplicity — can become operating values for the organization, supporting both customer and employee advocacy. By empowering staff members to “do what’s right for the customer, not just for the company’s bottom line,” they feel good about their jobs and the organization for which they work. Employee engagement leads to customer engagement, and a good place to start is to “do right by the employees.” Empower the teams to be able to fix problems rapidly for customers, and in turn, ensure your human resources division employs the same goals.
- **Train and compensate staff members to recognize at-risk customers.** Using analytic tools to develop alerts is one step in identifying customers at risk of attriting, but unless staff members follow-up on the leads, ultimately there is no point. So, sales and service representatives need appropriate training and coaching to learn to recognize and act on these alerts as opportunities. And if the sales force across the organization isn’t compensated for saving customers at risk, you’ll lose momentum in the program. As a result, incentives should be modified to reward saves as well as team efforts to save a customer when appropriate.

IDENTIFYING YOUR CHALLENGES

Where should you start on your path to improving customer retention? Use this diagnostic tool to assess your current capabilities — and opportunities for improvement — and see how you stack up against your peers (see figure 5). Scores will be calculated automatically for online readers. All scores are anonymous.

Figure 5 Customer Retention For Financial Services Institutions — Self Diagnostic

Part 1: Targeting and acquiring the customer	Yes	No
Does the organization have a clear picture of what the key customer segments are and how it can help meet customer needs?		
Does your organization bundle products and offers to meet the individual goals of these segments?		
Have you identified subsegments within the larger groups and defined value propositions for them?		
Do you have formalized on-boarding programs for new customers that include regular communication during the first year?		
Are you able to price products based on individual customer relationships?		
Do you have a simple, expedited process for opening a primary account with its commonly cross-sold products?		
Are you working towards achieving the capability of universal enrollment for most products?		
Total		
Part 2: Servicing and developing customer relationships	Yes	No
Does your organization develop common processes collaboratively across LOBs and channels (e.g., account opening, change of address, etc.) to simplify the customer and employee experience?		
Does your problem resolution process support escalations and measurements of SLAs?		
Do you have proactive retention programs to identify and approach customers likely to attrite?		
Does your CEO champion a customer-centric sales and service culture across the enterprise?		
Do you have a formalized sales training and coaching program for improved employee performance?		
Are your sales and service representatives trained to recognize retention threats?		
Is there an incentive compensation program in place that rewards for “saving” customers?		
Do you have any loyalty programs established for products (e.g., credit card rewards)?		
Total		
Part 3: Measuring results	Yes	No
Do you have a clear definition of attrition for your LOBs?		
Are you tracking and reporting on attrition on a regular basis?		
Does your CEO review retention results on a regular basis?		
Do you track attrition by product and customer?		
Can you identify controllable versus uncontrollable attrition?		
Are your product managers compensated for retention as well as acquisition?		
Do you have the ability to measure the profitability of individual customers or households?		
Total		

MEASURING YOUR SUCCESS

The underlying foundation to success with retention is a set of quantifiable business metrics. To help you justify, and eventually measure and prove business value of a retention project, FSIs should ensure their metrics include:

- **Attrition rates.** Definitions of attrition vary by institution and LOB. Some organizations look at accounts on file or households on file, but that measurement ignores the fact that balances can change and customers are defecting without actually closing their accounts. Does your organization want to track deposit balances, loan assets, products per household, or some or all of the above? Define what is important to your business goals, and try to develop a common set of measurements across the organization. One measure isn't enough — truly tracking attrition may require a combination of factors.

Controllable versus uncontrollable churn is an additional factor to attrition metrics. Customers who are saving to purchase a home will have balances growing in an investment — until they make the purchase and deplete the account. In this case the customer has met their goal and the FSI should consider it a mutual success, not a defection. Other uncontrollable forms of churn include diminishing balances due to retirees slowly draining their accounts, movement of car loan assets to a home equity loan, and moving to a location outside of the institution footprint. Fidelity Investments analyzed its customers' activity (through internal data and primary research) to determine what the level is of controllable assets leaving the firm (e.g., transfer of assets to another institution, loss of a household relationship upon death) with the goal of developing a benchmark of acceptable attrition. The data is complex, and consistent tracking and re-evaluation of new data is important to help build the right benchmarks.

- **Profitability measures.** With a myriad of methods to define profitability, FSIs have struggled to find the metric that is measurable and actionable. Activity-based costing, contribution margin, and return on capital are just some of the methods used to define profitability. In a customer-centric world, it would make sense to look at the activity, balances, and fees that a customer generates to define profitability. Work with your finance executives to develop a metric that makes sense with the way your institution does business. BB&T is currently working on methodology to not only define current profitability, but to predict a customer's future profitability as well — understanding that clients can grow their relationships as their financial situations improve.
- **Employee “saves.”** Measure and reward employees for the customers they keep from leaving once a desire to defect has been announced. Understanding what your employees contribute directly to reducing attrition will help you focus on areas to improve processes and tactics.

SUPPLEMENTAL MATERIAL

Online Resource

The online version of Figure 5 is an interactive self-diagnostic tool that helps clients assess how their current practices stack up against their peers.

Companies Interviewed For This Document

Austin Logistics	Getronics
BB&T	Harland Financial Solutions
Corillian	Harte-Hanks
Econiq	Nomis Solutions
Epsilon Data Management	REI
Fair Issac	Targetbase
Fidelity Investments	Unica
Fifth Third Bank	Wells Fargo

ENDNOTES

- ¹ Wal-Mart's application for a banking license created a significant backlash in the banking industry — even though the company claims that it will never open a branch or sell credit products. Adding to the anxiety of bankers, Home Depot plans to purchase EnerBank USA in Salt Lake City. See the July 10, 2006, Trends [“Retailers Get Into Banking: So What For Banks?”](#)
- ² “[H&R Block] Its financial adviser, bank, and retail mortgage units were placed under a new consumer financial services group separate from the wholesaler Option One. On Tuesday, H&R Block pointed to the reorganized group as the core of its new approach to financial services. ‘We increasingly look to align’ the three businesses in the consumer finance unit ‘to enhance our service offerings to be more competitive,’ Mark Ernst, the company’s chief executive, said at an investor conference. The \$750 million-asset savings bank, which H&R Block got federal approval to charter in March and opened in May, ‘is being used to deliver value to speed-of-refund clients and financial advisers to supplement higher-end client needs,’ Mr. Ernst said.” Source: Kate Berry, “H&R Block Clarifies Consumer Group Vision,” American Banker, November 8, 2006.
- ³ “Last month the Jacksonville, Fla., mortgage company NHB Holdings Inc. — which had applied with the FDIC and Utah regulators to buy an ILC, Volvo Commercial Credit Corp. of Salt Lake City — sought Federal Reserve Board approval to become a bank holding company and convert the ILC into a commercial bank in the hopes of sealing the deal before the moratorium ends. The resulting institution, which NHB plans to call Globility Bank, would be a mortgage and commercial lender.” Source: Joe Adler, “As ILC Idles, OTS Reports Inquiry Uptick,” American Banker, September 18, 2006.

- ⁴ “Ameriprise Financial Inc. says it hopes launching a bank will give its financial advisers the tools to increase wallet share, but an analyst was skeptical. The Minneapolis financial planning company announced Monday that it had opened Ameriprise Bank. Joe Sweeney, Ameriprise’s president of financial planning, products and services, said establishing a bank was a top priority after the spinoff from American Express Co. last September. ‘From a private-client point of view,’ he said, ‘we have an existing relationship, and as long as we provide a competitive product and pricing, we can get more share from our existing customers. These banking products give us a platform to deepen our relationships with existing clients and attract more to our franchise.’” Source: Matt Ackerman, “Ameriprise’s Bank Is Intended To Help It Build Wallet Share,” *American Banker*, September 20, 2006.
- ⁵ Why does online bill payment result in higher retention rates? A big reason is that avid online bill payers are loathe to switch banks due to the hassle of having to reset all their payee information, eBill requests, and recurring payment instructions at a new bank. But Yodlee’s new aggregation-based product takes most of that pain away. This service minimizes the effort to establish online bill pay at a new bank. When a consumer switches to a new checking account provider and enrolls in online bill pay, the service will step them through moving over all their payee account information. The consumer identifies their old bank and provides the online login information for the old account. In real time, Yodlee’s service uses screen-scraping technology to log into the old bank’s online service and imports all payees, remittance instructions, and account numbers. If any of the account numbers or remittance information was masked on the old bank’s site, then the consumer is alerted that further action is needed and they are prompted to enter any missing information. See the November 29, 2006, Quick Take “[Finally! Financial Aggregation Products That Make Sense.](#)”
- ⁶ “The woman was a ‘Jill,’ code name for a soccer-mom type who is the main shopper for the family but usually avoids electronics stores. She is well-educated and usually very confident, but she is intimidated by the products at Best Buy and the store clerks who spout words like gigabytes and megapixels.” Source: Cha, Ariana Eunjung, “In Retail, Profiling for Profit,” *The Washington Post*, August 17, 2005.
- ⁷ Based on customer purchase history, local demographics, and consumer feedback, Best Buy tailored some of its stores to serve specific personas. “Barry” stores have leather couches and popcorn to help drive home theater sales. “Buzz” stores have large video game islands with plasma TVs. “Jill” stores have personal shoppers wearing pastels and piped-in adult contemporary music. At one “Jill” store in Santa Rosa, Calif., the customer group’s spending was up 30% compared with the year before the redesign. Overall, Best Buy’s customer-centric formats experienced a comp store 3.6% sales lift in FY2006. Based on this success, Best Buy will implement a single customer-centric operating model for all stores in FY2007. Best Buy has created concept stores, each focused on a specific customer group with the facilities to support targeted experiences. “Escape” targets young male gamers, who are similar to the “Buzz” persona and provides rentable Game Pods to test drive the latest games and equipment. “Studio D” targets women technology shoppers, similar to the “Jill” segment, and creates a learning environment around the technology by offering in-store events and workshops. Through these stores, Best Buy delivers customer experiences that close the digital experience gap found at its main stores. See the July 13, 2006, Forrester Big Idea “[Reinventing The Marketing Organization.](#)”

- ⁸ Sophisticated segmentation will help acquire and retain customers. While the biggest advances in online retailing in the past decade all supported getting a decent eCommerce site up and running (e.g., inventory visibility, on-site merchandising and cross-selling, price comparison, and multichannel congruity), the next phase of evolution in the industry will employ tools and technologies to better understand customers and cater efficiently and effectively to their varied needs. Retailers will find most relevant new technologies that enable them to identify key shoppers and their needs and interests, facilitate ways to better serve them through personalized service, and create targeted, relevant messaging. See the November 28, 2005, Trends [“Twelve Technologies That Will Transform Online Retail.”](#)
- ⁹ Banks and investment firms are keenly focused on organic growth and cross-selling. But these financial institutions have problems with one of the key initial steps: account enrollment. Opening a new bank or investment account can take as long as 45 minutes depending on the tools the sales representative has to use. Even if a prospect has an existing account, new enrollment processes can be frustrating and complicated. See the October 4, 2006, Best Practices [“Financial Institutions: Fix Account Opening.”](#)
- ¹⁰ What do we really mean by universal enrollment? Using a common interface, FSIs can set up one account application process that supports all products and channels through the use of business rules and intelligence. Once products are chosen, users can select the account(s) they want to open, and enter in required data only once — even if needed for multiple products. This process is enabled by several layers of technology. See the October 4, 2006, Best Practices [“Financial Institutions: Fix Account Opening.”](#)
- ¹¹ The first year with a new customer is critical — it’s the period with the highest attrition rate and the greatest opportunities to cross-sell. To tap into these new customers, many banks have developed structured onboarding programs. The attention appears to be working: First Tennessee Bank is seeing direct mail response rates of 5% to 10% from offers sent to new customers monthly during the first six months of the relationship. A top bank began a formalized onboarding program six months ago and has already seen a positive movement in its cross-sell numbers. See the June 19, 2006, Best Practices [“Capitalizing On Banks’ Sales Opportunities.”](#)
- ¹² Financial services consumers continue to grow more mistrustful of firms, more insecure, and more hands-on. To combat these changes, most financial services firms have focused on raising satisfaction. But satisfaction does not drive consumers to deepen relationships with firms. What does? Customer advocacy — the perception that the firm does what’s best for its customers, not just what’s best for its own bottom line. Firms that demonstrate the four components of customer advocacy — simplicity, benevolence, transparency, and trustworthiness — enjoy the most important fruits of loyalty: customers willing to consider the firm for future purchases. See the August 1, 2005, Forrester Big Idea [“Customer Advocacy: The Secret To Loyal Financial Services Customers.”](#)
- ¹³ We examined the channels that consumers prefer to use when they interact with banks, looking specifically at eight different banking activities. Some key findings: The branch and the Web are the most popular channels for buying, the Web is the most popular for banking, and the branch is most popular for service interactions. See the August 17, 2006, Trends [“The Banking Channel Popularity Contest.”](#)
- ¹⁴ Since 2000, KeyBank has refined and enhanced its account enrollment processes in the human-centric

delivery channels. The result is a universal capture process for all consumer products with the exception of investments, mortgages, and credit cards that are not pre-approved. While the online channel uses a separate process, it does permit account enrollment within a secure environment, enabling prefilling of known data. Cross-selling is enabled by this easy process for multiple products, but KeyBank has additional upgrade plans: integrating the customer management system with account enrollment. This will directly tie to its tool that manages offers to the account enrollment process, facilitating dynamic, relevant offers. With support from the retail banking exec, KeyBank is managing a continuous improvement program for account enrollment that includes consolidating and simplifying the back-end LOB systems and integrating servicing capabilities like address maintenance into enrollment. See the October 4, 2006, Best Practices [“Financial Institutions: Fix Account Opening.”](#)

- ¹⁵ “MasterCard Inc. announced Tuesday that it plans to introduce a program next year that will enable its member banks to customize their rewards points programs by consolidating all of their customers’ relationships. People will be able to earn points on deposits, investment account balances, and online payments, as well as through spending on a card, MasterCard said. MasterCard will also offer software to help banks track the rewards points. Banks will be able to offer their customers cash back, travel, and gift certificates for the relationship rewards. Patricia Preston, who heads debit products at the Purchase, N.Y., company, said in a press release that the program will help banks ‘enhance their cross-sell and retention efforts.’” Source: H. Michael Jalili, “In Brief: MasterCard Plans Customized Points,” *American Banker*, November 15, 2006.

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