Static Customer Segmentation – a thing of the past!

WHITEPAPER

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Introduction

The BANK OF THE FUTURE will be all about the customer. Gone are the days when banks could create standard one-size-fits-all products and offers and expect the customer to subscribe to it.

Customers' expectations from their banks have moved from being a provider of standard financial products to a partner who understands their financial goals and helps them achieve these goals in the most efficient way. To achieve this banks are moving from being product-centric to being customer-centric.

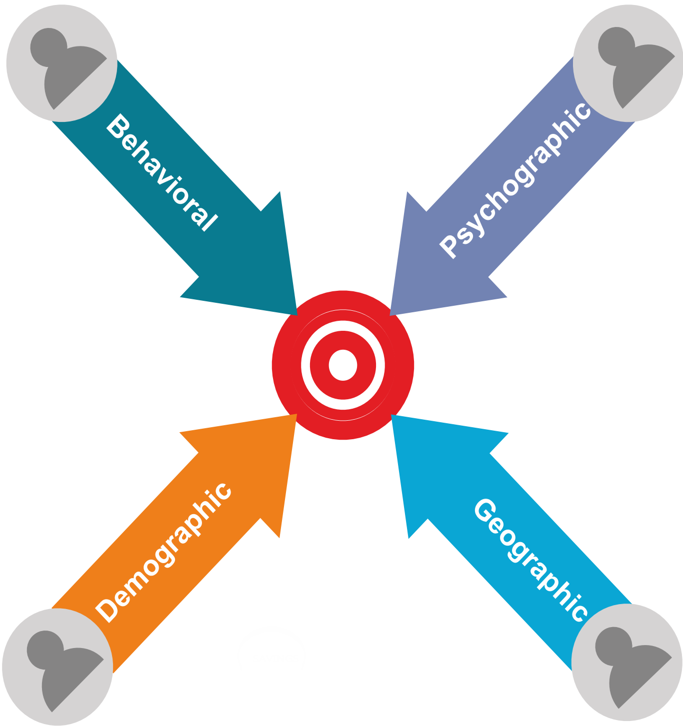


Figure 1- Traditional Market Segmentation

With the new digital wave, personalization has reached an all new level- that of omnichannel orchestrated personalized offers. The products and services, that banks offer, have to be personalized to meet specific requirements and coupled with an experience that is well orchestrated across the various customer touch-points. This means that the banks have to be intelligent and smart enough to know exactly where and how the customer's most recent interaction with the bank happened, and every minute detail about it, in order to provide a continuous experience when the customer next interacts with the bank, irrespective of the channel.

One of the first steps towards personalizing products and services is to be able to divide them into logical groups, with similar preferences, based on various parameters. Basic level segmentation, also known as macro-segmentation is about segmenting the customers based on certain high-level demographic criteria. Traditional segmentation methods usually divide the market based on four categories: Geographic, Demographic, Psychographic and Behavioral. While this is a good starting point towards customer focus, a lot remains unexplored when it comes to understanding the customer for personalization.

Segmentation can be further fine-tuned by bringing in more nuances to the process of segmenting customers, to something called micro-segments. The Banking 2016 report, by Accenture, defines micro-segmentation as "the smallest set of customers with uniform demographics and social behaviors, that can form the

basis for defining strategic profit pools." This essentially means to say that the banks need to identify the persona of each customer based on multiple parameters, many more than that used for basic segmentation. The "Intelligence Customer Experience" report by EY identifies the following parameters for defining personas:

- **Customer characteristics:** income, age, marital status, employment or education
- **Customer emotions:** life aspirations, fears, dreams, brand loyalties, advocacy and trust
- **Banking behaviors:** usage frequency, usage volume and preferred channels
- **Financial factors:** asset level, revenue level or profitability
- **Digital factors:** mobile usage or online shopping

Micro-segmentation enables banks to get one step closer to the customer by helping them offer exactly what customers are looking for. Marketing campaigns to promote any product can be more targeted and successful as they are addressing smaller groups with finite number of customers, and hence the chances of converting a prospect to a customer is much higher. This also means that the ROI of the marketing campaigns would increase substantially.

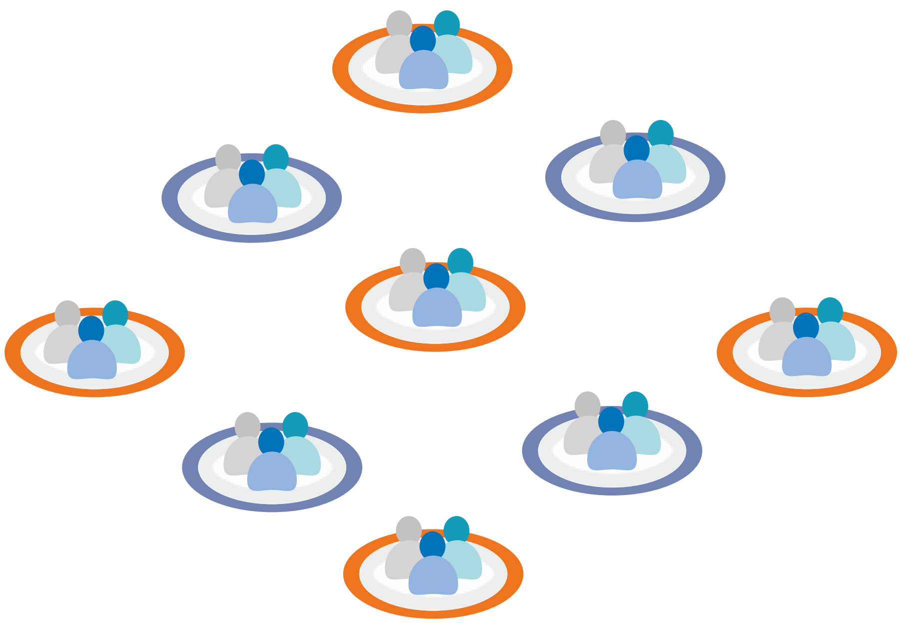


Figure 2- Microsegments

While micro-segmentation is a more successful marketing strategy than macro-segmentation, it can have its own disadvantages, especially if done in a static format. Static segmentation is a process where essentially the segmentation exercise is done in planned intervals, say annually/bi-annually, to create logical groups and the sales and marketing teams run with the said lists till the next planned segmentation cycle is due. Static segmentation has proven as a good source of information, especially for exercises like developing customer personas which can be a strong reference point while creating offers for different segments and types of customers. But the static nature of segmentation as a means of personalization becomes ineffective especially in the current era, when customer requirements are rapidly changing. The customers today have abundant access to information and are spoilt for choice of financial service providers, in the form of traditional banks, challenger banks, fintechs, and many more. The new-age customer has fast-changing preferences, low tolerance levels and is quick to voice opinions on social forums.

And the smallest negative customer feedback can go viral and create significant damages to the brand image of banks.

35% of banking revenues are projected to be at risk by 2020*

Moreover, campaigns based on static segmentation can lead the banks to create multiple programs to meet the various objectives of different micro-segments. Market resources therefore have to be allocated very carefully, and the chances of failures are also very high as the segmentation might be outdated and the customer requirements might have changed between the period of the segmentation exercise and

Static segmentation strategies are passé!! The new-age customer is defined by dynamic personas

The customer preferences have moved from commoditized products to transformational experiences. The context of a customer, at any moment, is a major influencer of decisions, and therefore of the individual requirements. They are influenced by multiple factors at any particular point in time- life-stage, income, lifestyle,

geography, emotions, spending behavior, product preference, device preference, banking behavior, social interactions, competing product/service provider, and many more.

Banks need to equip themselves with dynamic segmentation capabilities in order to succeed in this environment. The idea behind dynamic segmentation is to acknowledge the fact that no two customers are identical, and to treat each one of them as special with unique requirements. The banks need to analyze the customers' persona across multiple dimensions like the one provided by AdKit in Figure 4

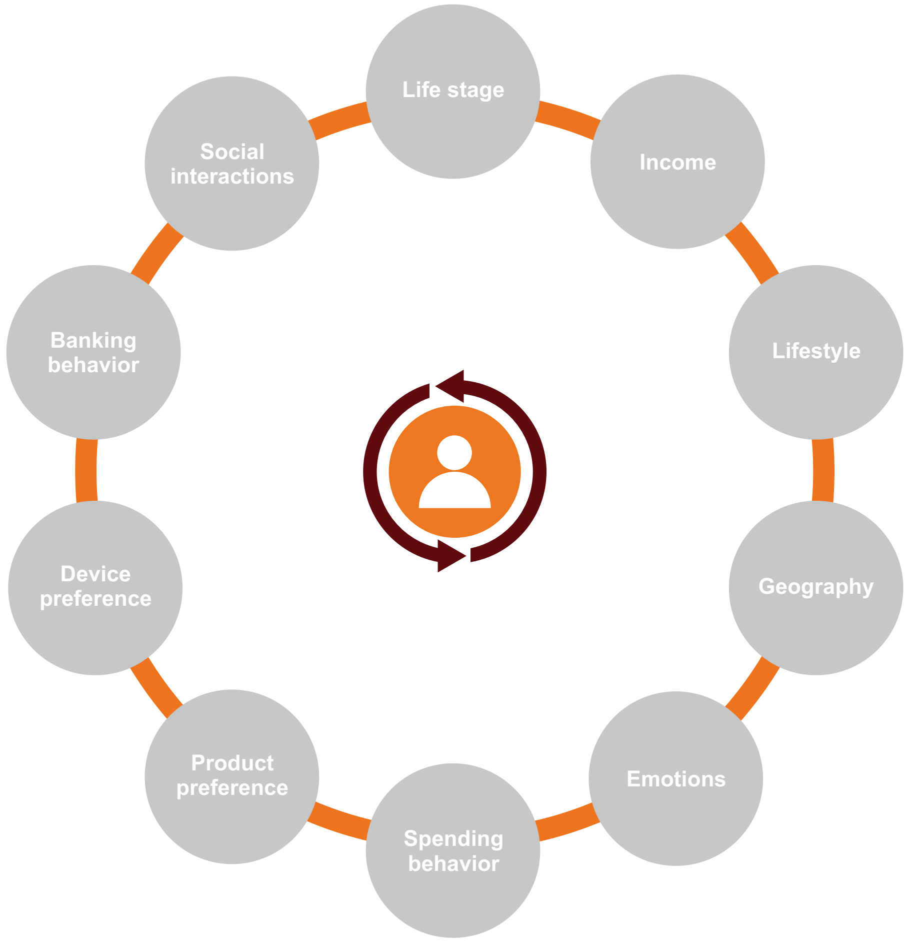


Figure 3: Influencing factors for a customer

Banks will have to leverage the vast troves of customer information that they already possess, by enabling themselves to make proper sense of it. With the entire world going digital today, almost all details of an individual can be accessed and analyzed with the right amount of intelligence. The data can provide helpful information in the form of customer profiles, customer journey, product preferences, transaction history, historic interactions, behavioral information, response to marketing communication messages, social media presence, connections, influencers, and much more. With new-age technologies like big data processing, predictive analytics, prescriptive analytics, and machine learning, service providers like banks can effectively capture and leverage data to gain extremely fine-grained insights into customer behavior. With this the banks

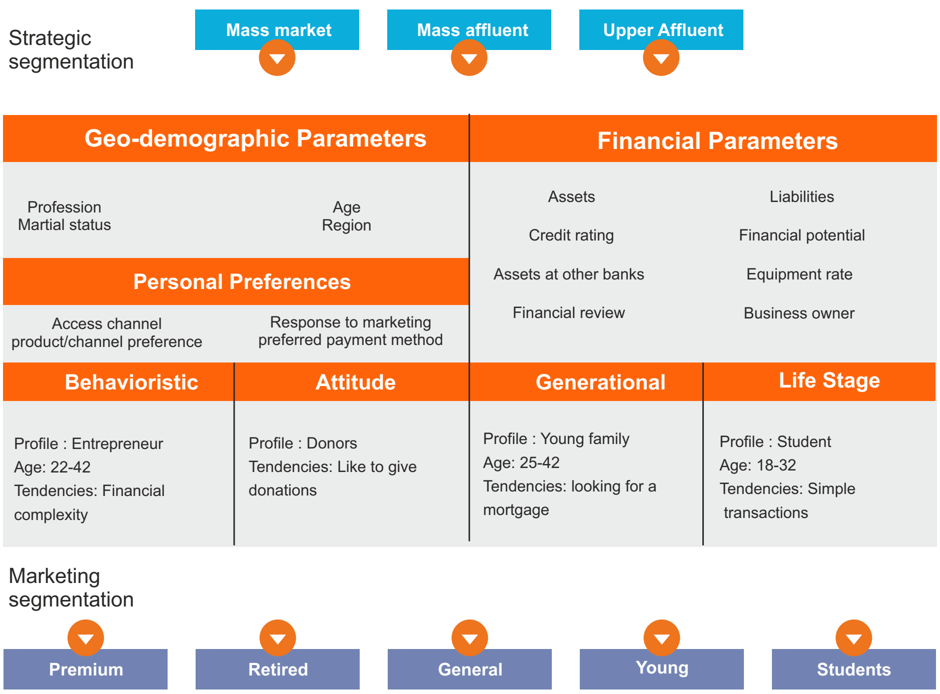


Figure 4: A multi-dimensional view of customers and their needs

should be in a position to identify and cater to the unique requirements of each and every customer.

While the ability to analyze customer data and utilize it to personalize products and services, this can be effective only if the banks are able to do this in real-time, considering the fact the persona of a customer need not be constant. It can change as and when the context of the customer changes:

For example, a customer who is on a steady salaried job and a family of 3 might have usual financial transactions mainly around daily purchases, mortgage payments against a house purchase, savings for child's education, investments in securities and so forth. On a certain day, if he decides that he wants to take a yearlong break, quit his job and wants to pursue a startup idea, his financial requirements might change overnight. He might not be in a position to contribute towards his systematic investment plans, mortgage EMI's, and might instead be looking for a business loan. Moreover, he might be in two minds to switch to a bank that offers a better rate or terms and conditions that might ease the contributions that he will have to make towards the systemic investments that he has already made. In such a situation, a bank who can timely preempt his situation and probable behavior and can provide him a suitable offer that ensures that he continues the relationship with the bank is the ideal bank. The "Intelligent Customer Experience" from EY states that the personas work as centroids with customers gravitating at different distances from each other.

Banks can be successful only if they are able to dynamically access, understand and analyze the unique requirements of the customer, at any point in time, based on the various combinations of multiple parameters, and craft a real-time personalized offer in consultation with the customer.

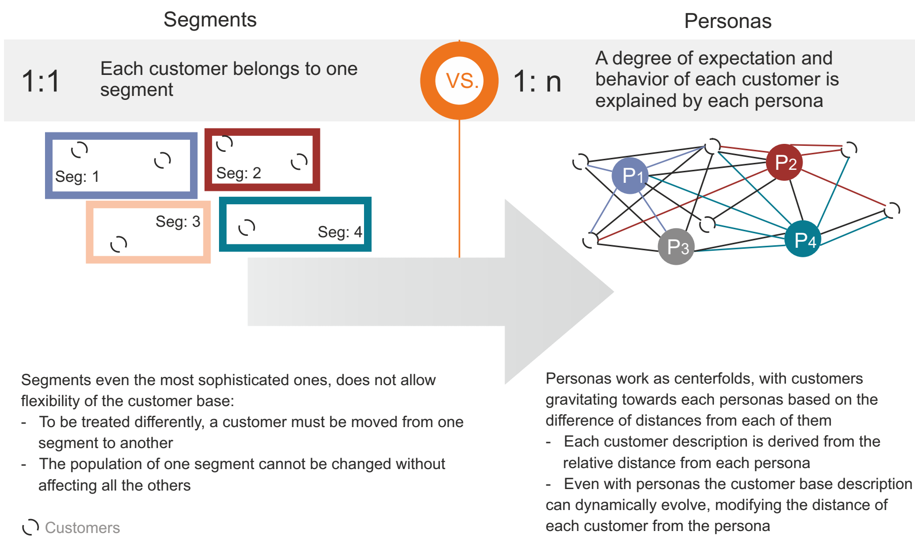


Figure 5: Personas work as centroids with customers gravitating at different distances from each other

Source: The Intelligent Customer Experience, EY, Nov 2015

Dynamic persona-based customization increases the perceived economic value of a product/service.

Customers are willing to pay more for a personalized product that suits their requirement perfectly. Customers prefer to be part of the decision-making process and are more loyal to service providers who understand them. They do not mind paying extra for the superior customer experience they are receiving. A perfect example would be of a standard mug of coffee Vs a custom-made coffee which would easily cost 2-3 times compared to the standard one. In addition to every offer that is dynamically co-created along with the customer, the bank should be equipped with a next-best offer that can be immediately presented in case of any dissatisfaction on the customers' side. Ultimately the goal is to capture the mind and wallet share of the customer before competition can do so.

But research by analysts suggest that the current distribution models of many banks are unable to cater to the fast-changing requirements of customers in terms of simplified yet personalized products and services from their banks. Banks lack the agility to adapt to contextual and dynamic customer preferences. The FIS PACE Index 2015 study reveals that banks are not doing enough to help customers achieve their financial goals, and do not intuitively anticipate the future needs of the customers. The study reveals that while banks have been successful and performing well in terms of providing omnichannel experience, convenience and connectivity, they are way behind in terms of intuitively anticipating customers' needs and helping them achieve their financial goals. It states that banks are insufficiently focused on customization.

A significant proportion of the customers rate their banking experiences to be transactional rather than relationship-based.

The March 2016 Digital Banking report by GFK and personetics reveals the status of banks in terms of meeting customer expectations. As per the study, about 46% of the banks said that they do not provide personalized advice to their customers on financial goals and 14% have no such plans of doing so. About 38% said they do not provide third party offers in partnership with other service providers to suit their customer choices. And about 26% had no plans to implementing any such service in future. About 46% said that personalized offer to simplify banking for their customers is still an emerging technology in their banks. Such statistics put up a very grim picture of where banks stand today in terms of delivering superior customer service.

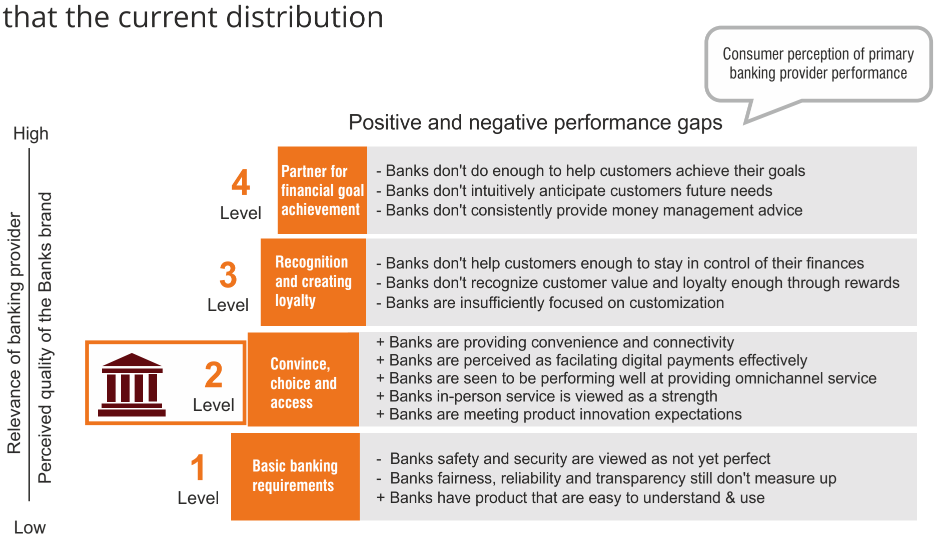
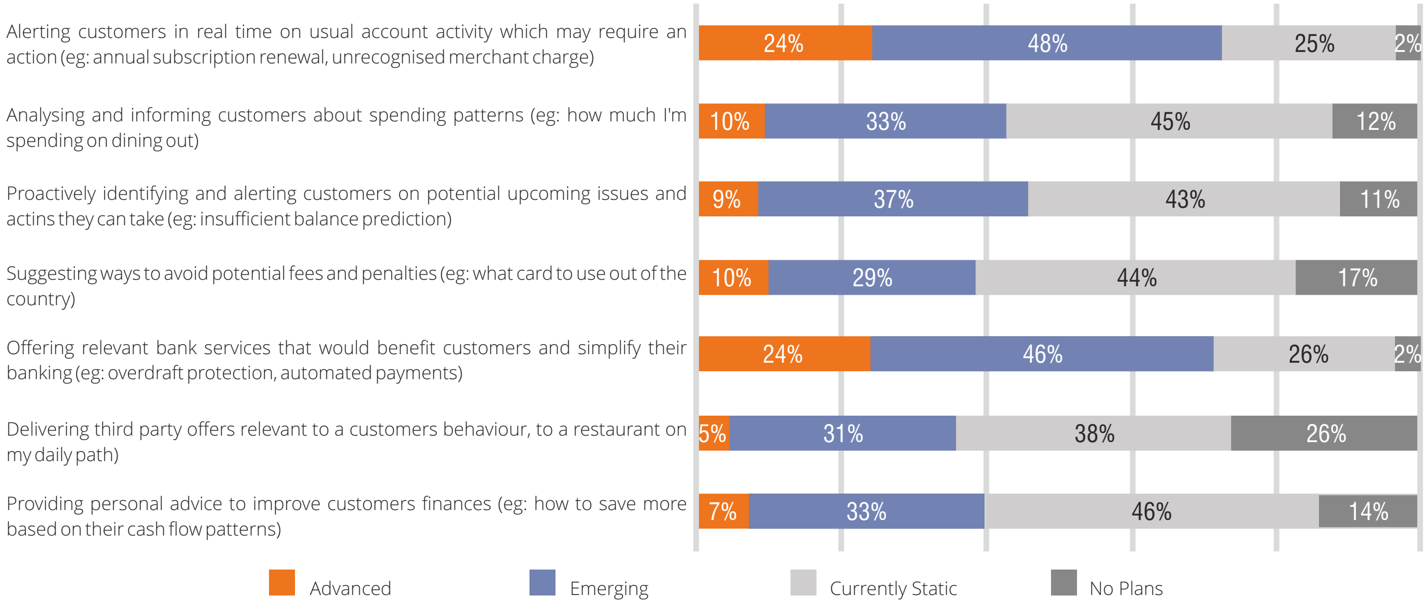


Figure 6: A significant proportion of customers rate their banking experiences to be transactional

Source:FIS PACE study May 2015 - The Financial Brand



Source: GFK and personetics March 2016 Digital banking Report

To transform customer's experience & drive customer life time value, banks must go beyond the normal

Persona-based dynamic customization can be a sure route to staging a positive experience. Personalization across all stages of the consumer journey will be a key differentiator for banking in the very near future.
If one is able to design an offer that is so appropriate for a particular persona, a service that is exactly what the customer wants and needs at this moment in time, then you cannot help but make him/her go "Wow!" and turn it into a memorable experience. And that is key to forming lasting relationships with customers. It's not about the "products and services" you want to push out to consumers -especially since banks actually have no "products" and generally commoditized services; it's about creating unique experiences within them based on knowing more about consumer wants and needs than anyone else – perhaps even more than they know themselves.

Creating a bank of the future requires banks to build certain capabilities. With persona-based customization as the base strategy, banks can easily cater to the ever-changing personas of the new era customer. To transform customer experience and drive customer life time value, banks need to equip themselves with:

- An executable vision and customer experience strategy that the entire organization is working towards
- Ability to dynamically segment customers, in real-time, based on the persona and choices of a customer at that point in time
- Agility to craft innovative offers in real-time, and personalize them to suit the exact requirements of the customers, while at the same time ensure profitability to the bank
- Capabilities like relationship-based pricing in real-time in order to capture and retain the wallet and mind-share of the customer before any competition can do
- Ability to make the banking platform agile enough to integrate with third party platforms that add value to the entire customer lifecycle,

rather than operating in silos

- Offer rationalization and orchestrations capabilities across channels and various products in the bank as well as with external partners like fintechs and other non-banking service providers therefore ensuring superior customer experience
- Value management capabilities both across products – in the form of internal transfer pricing, as well as across the partner eco-system –in the form of revenue and profit share

Persona-based customization could become a key determinant of customer lifetime value and market share in an increasingly digital economy. Banks that are nimble and successful in capturing mind share at every point of the customer lifecycle are definitely geared up to gain an edge over their competitors

Sounds Intimidating? Not necessarily

Part of the challenge of going beyond demographics for dynamic segmentation in the financial services industry is that some key data elements may be missing on a banks customer database or may be difficult to collect for modeling purposes due to internal data silos (product use, channel use, spend and payment data, etc.). Secondly, the difficulty and/or cost of acquiring some primary customer data may be prohibitive (social insights, credit insights).

In response to these needs, some tools have been developed using census-based (non-personal) insights. Many of these have been marketed by credit bureaus and other providers, providing more accurate geodemographic classifications that can be overlaid on customer profiles for better targeting and analysis.

There are multiple technologies available that can help banks in this transformation journey. Technologies like analytics and predictive modeling can help banks understand and analyze the customer behavior and preferences under multiple contexts and derive meaningful insights which can be the back bone of the context-based offers. Banks would need to invest in a business layer that can orchestrate across all the applications in the technology landscape of the bank so that information silos do not become a hindrance in the attempt to achieve superior customer experience. A stepwise approach would be ideal with the first few steps being on the lines of relationship based segments and then moving towards the more complex real-time dynamic segments and offers.

The “Banking on customer centricity” report by McKinsey mentions OCBC for strategies used in targeting a specific segment- “OCBC (Oversea-Chinese Banking Corporation), one of Singapore’s leading banks, launched its FRANK concept in May 2011 with first branches targeting “Generation Y,” using the slogan “The Brand New Way to Bank.” It spent a great deal of up-front effort researching what it termed ethnography: “We hung out with them at malls, ate dinner with them, went shopping and clubbing with them and spent a lot of time looking in their wallets and talking about money,” David McQuillen, Group Customer Experience at OCBC explained. The brand name FRANK is inspired by the phrase “frankly speaking” and aims to convey honesty, sincerity, and simplicity. In the press, it’s being called “maybe the coolest bank Gen-Y has ever seen.” Customers are serviced in FRANK retail stores rather than OCBC branches. The store is modeled after a shopping experience that Gen-Y customers are familiar and comfortable with. OCBC creates FRANK debit and credit cards with individual designs that their young customers can use to express their personality and even fashion sense. It also has a tailored savings concept allowing customers to name their savings goals, with a visual record of how close they are to each goal (“My Dream iPad 3,” etc.).”

Conclusion

All said and done, each bank will have to carve out its own unique strategy to achieve the end goal of customer centricity and life time value, basis their internal structure and intended timeline for achieving ultimate customer experience transformation. Capabilities like dynamic customer segmentation and relationship-based pricing capabilities, can enable the banks to deliver dynamic context based offer to end-customers. Real-time analytical simulators can help derive the best offer for the customer based on past customer relationship history, customer behavior and preferences, and multiple other parameters. Customer-facing executives and product managers should be empowered to constantly monitor the performance of a product or offer and make real-time tweaks to ensure suitability to the customers. A rationalized product catalogue ensures that there are no information silos within the bank and the product or relationship manager is able to view the products across departments in the bank therefore enabling creation of suitable product bundles and offers to suit customer needs. This also provides an opportunity to capture higher customer wallet share with effective cross-selling and up-selling. Partner management tools thereby simplify offer orchestration and revenue share with the partner ecosystem. Real-time orchestration of transactions across multiple channels can ensure a seamless customer experience and therefore enhanced customer lifetime value.

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About SunTec

At SunTec Business Solutions, we help our clients increase the lifetime value of their customer relationships through effective revenue management and real-time customer experience orchestration. With a legacy of deployment in over 60 countries, SunTec is a trusted partner to some of the world's leading banks and digital and communication service providers. Headquartered in India, we have our offices in the USA, UK, Germany, UAE and Singapore.

With a team of highly skilled individuals and our innovative product development models, we help our clients remain at the forefront of cutting edge technology. A stable, mature and flexible product suite, Xelerate continues to develop with the market. With insights from our industry experts, a robust future-ready roadmap and seamless integration with any ecosystem, it is one of the most effective products to leverage.

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