

The ABCs of CRM



SEDONA
CORPORATION

1003 W. Ninth Avenue, 2nd Floor
King of Prussia, PA 19406
T (610) 337-8400
F (610) 337-8490
www.sedonacorp.com

The objective of Customer Relationship Management (CRM) boils down to one simple concept: loyal, profitable customers. Loyal because longtime customers tend to buy more and are easier (and subsequently more cost effective) to sell new products to than trying to acquire new customers. Profitable because this is what makes or breaks a business.

This is a practical definition of CRM:

“The ability of an organization to effectively identify, acquire, foster, and retain loyal, profitable customers.”

Casinos are great examples of CRM. Casinos proactively identify high margin customers (called high rollers) day in and day out throughout the operation. Everyone from the security guards, to the dealers, to the waitresses are aware that they are responsible for finding and catering to high roller clients. Once high rollers are identified, casinos go all out to ensure that these customers are given extraordinary service. Why? Because the casino makes most, if not all, of its profits on this handful of customers. The casino will continue to deepen its understanding of their habits and preferences to further cater to the high roller’s interest in returning to the casino to spend more money.

Airlines also practice CRM. The customers who are the most loyal and profitable to the airlines certainly get differentiated service. Frequent flyer programs were developed to foster brand loyalty. Next time you fly, however, purchase a first class ticket and see how the airlines respond to your profit contribution!

Let’s explore how CRM plays out in today’s financial services businesses. It is widely known that in a typical financial institution (FI), 20% of the customers represent 160% of the profits (source: First Manhattan Consulting).

A financial institution with \$500 million in assets would typically have between 50-75,000 customers.

For a community bank or credit union, this is a huge number of individuals to keep track of. However, 20% of those accounts means that fewer than 15,000 customers generate all of the profit. From studies done on FI profitability, it is also known that typically only



10% of the customers will have an account portfolio that is completely profitable. Perhaps more amazing is that 20% of the overall profitable customers will have only one profitable account!

Therefore, who are those 15,000 customers? What are they buying to make them profitable and what else can you be selling them to make them more profitable? In terms of customer retention, a Harvard Business Review Study claims that by retaining 5% more customers, financial institutions can boost profits by as much as 100%. In the above example, you can make a significant profit contribution if you can focus on retaining 7,500 customers. M&T Bank recently stated that the loss of one top customer meant that they needed 20 new customers to replace the profit. If this is the case, it is important for you to know whom these people are that may leave your institution (and take potentially half of your profit with them). What can you do to help keep them? What products or services do they have or should they have to make them more likely to stay and continue contributing to your financial institution’s profitability?

In the insurance industry, pricing is everything. Any risk can be underwritten as long as the price is right. The right price means that the agent or broker can win the business and the insurance carrier will see their premiums exceed expenses for the risk. One insurance carrier was able to reduce their marketing expenses by 25% through customer segmentation and target marketing strategies. By developing a better understanding of what the customer needs, the carrier is able to help the agent offer the right product to make the sale. By increasing the earning power for the agent or broker, the insurance company can build a stronger long-term relationship with the agent to promote its products.

Traditional database systems, MCIF/CIF systems, data warehouses, and such technologies can help determine the answers to these questions. The more advanced systems allow you to use state-of-the-art profitability analysis such as matched maturity and funds transfer pricing to be as precise as possible when estimating the costs and revenues associated with doing business at your specific bank or credit union. In addition, householding techniques ensure that you are recognizing profitable customers based on their household or overall account holdings (personal, household, commercial).

Some systems now even include analytics and event-based alerts to notify you when something happens, such as accounts being closed or balances changing dramatically that may indicate a customer may be on their way out. Once you identify who and what products/services are profitable, you can enhance the customer records with demographic and behavioral data to build segments and profiles to best target these customers.

The enhanced data can be analyzed using more sophisticated tools such as visual profiling which assists in filtering and presenting the data to show trends, geographic representations and statistical analysis. Marketing professionals use this information to create look-alike models to profile ideal customers. This can help in identifying potential high value customers from the existing customer base. The

marketer can also rent prospect lists reflecting the look-alike characteristics so that they optimize their list and reduce mailing expenses. The better you can target the right prospects, the less time and money you need to spend on sales and marketing efforts to get and keep customers. This contributes directly to your FI's profitability. Many financial institutions have this data analysis capability in an MCIF or data warehouse.

However, a recent SEDONA Corporation survey revealed that over 60% are not using the systems. Why? Let's go back to the simple CRM examples. If the casino or airline marketing teams know who their most profitable customers are, but the dealers and flight attendants don't, how does this really help the organization? Sure, marketing can send out nice offers in the mail and give you pretty membership cards to indicate that you are special -- but if the front-line personnel don't recognize you as "special", the data analysis efforts are moot.

Additionally, in a true CRM environment, the front-line personnel not only need information to service the customers, but they can provide critical information and insight back to the organization from their personal contact with each individual. Enabling them to do this quickly and easily is a key aspect in instituting a CRM culture.



In a nutshell, CRM is a way of doing business. Technologies like MCIF, data warehouses, and call center systems can help in achieving CRM but miss a critical piece of the solution. CRM means that you understand your customers, their needs and your goals in making them better customers. But equally important is that your entire organization can then participate in servicing these customers appropriately. This means they not only need to use critical information in their ability to service a customer, but in doing so, they will also uncover information that can be invaluable to the customer relationship and should be made available to everyone ‘touching’ the customer.

What makes CRM solutions different boils down to three major capabilities:

- The ability to capture interactive information
- The ability for the organization to share information easily
- Ensuring that the organization’s processes are fluid and enforce accountability

Interactive information is data that is collected from a person-to-person or person-to-computer dialogue. An example of this would be the customer that walks into a branch to deposit their paycheck. While talking, the teller notices that the customer



is pregnant. This is critical information to capture as it offers great opportunities to cross-sell products such as estate planning, college savings instruments, life insurance, etc. In insurance, the call center needs to be able to easily communicate with the insurance

agent about changes that a policyholder requests to a homeowner’s policy. This allows the agent and call center to work together so that the appropriate coverage can be applied to reduce the premium and retain the customer’s business.

Most likely, this isn’t information you will be able to find in a transactional system nor any data enhancement service. Yet, it can help identify opportunities for the FI to sell high margin products.

Take this a step further. Financial institutions want to know what to cross sell and what is the “next best product.” A CRM system can analyze an individual’s existing purchases, behavior and other people’s purchases that are similar to recommend the next best product to sell to that customer. If you have ever bought a book on Amazon.com and have seen the message that suggests you might be interested in other related books or books that were purchased by people who bought similar book(s) – this is a good example of “next best product”.

What most FIs don’t realize is that without the integration of interactive data, such recommendations could be dead wrong. Take for example the customer who walks into the branch to conduct a transaction. The FI employee sees that this customer has a large amount in a low-interest bearing savings account and the system tells them to cross sell a CD, with a special rate for such high balances. The teller offers this to the customer, but learns that they are saving to put a down payment on a new house. The system wouldn’t know this but the teller uncovers this fantastic opportunity to notify the mortgage department. Capturing this information is essential. Another example could be when a policyholder needs to add a teenage son or daughter as a driver to an existing personal auto policy. The agent might be able to offer special programs for young drivers and outline discounts that could apply when the teenage driver goes off to college. Further, the agent could make recommendations on property insurance when the student goes off to college that could lower their renters’ insurance after college.

Doing something with it is the next requirement. As noted before, CRM's second differentiator is the ability to share information across the organization. In the example above, you must get this mortgage lead to the right person, and fast! The Internet affords you a means to pass information around easily - via email or Web-based applications. Whether leads/referrals are generated on the front line or by marketing in the back office, ensuring they are followed-up in a timely, efficient manner is key to reducing costs and increasing sales.

The better CRM systems utilize workflow techniques to automate the process and provide reminders and automated escalation so that leads and customer requests do not go unserved. In addition to the passing of information, some CRM systems provide an online repository of information needed by employees to carry out their jobs. Tellers require rate information, account and special program information while a marketing manager needs reports on profitability, leads, and competitors' websites. CEOs like the ability to access information at a moment's notice so they can manage the business and respond to requests or issues as they arise.

The information needs to be easy to access and must be customizable to fit each individual's specific needs. Internet portal technology offers a great way to implement this. Think of a portal as a way to have a company Intranet that can be customized for each user and authorized users can add or change information on the fly. This can not only make everyone's job easier but it can save an organization significant money in saving paper and the time and effort associated with information distribution.

The third part is the one most important to the customer but usually the one ignored by most

companies. When a request or issue is raised by the customer, it is absolutely mandatory that it does not go unanswered. Even if you don't have the answer itself at first, acknowledging that you received the request, are following-up on it, and eventually closing it out, can be the most challenging for the typical organization composed of many individuals touching the customer and relying on colleagues for closure. In essence, don't drop the ball.

Most CRM systems do not embrace the idea of process or the not-so-new concept of workflow. Having a systematized way to ensure follow-up and track the timeliness as well as the overall process itself can help optimize customer service and identify opportunities to improve productivity.

While we'd all like to believe that everyone aims to do their jobs and follow through, reality shows us that having a system in place to monitor this can assist. As an example, a CSR who generates a lead has done their job and handed it over to the next person in line to follow up. Without that follow-up in a timely manner, all initial effort is lost. Nothing aggravates us more as consumers when we request information or have someone state they will get back in touch with us only to be left in the black hole of no reply. Many insurance companies use service as a differentiator for their business. When something unfortunate happens to a policyholder, insurance companies want to process claims accurately and expeditiously. Their customer is anxious to get the mishap behind them as soon as possible. The claims department must respond to actionable information in a timely predictable manner. Linked with customer information, each activity must be tracked until the claim is settled. A delighted customer will be one who is attended to and followed-up with in a timely, well-informed manner.

So perhaps the definition of CRM should be expanded:

“The ability of an entire organization to effectively identify, acquire, foster and retain loyal profitable customers.”

Truly successful organizations are able to communicate and share information about their customers and ensure personnel are responding to customer needs in their efforts to achieve the best possible service and profitability.

Don't feel bad if you've been confused about all the hype about CRM. As with any industry trend, many vendors have jumped into the arena with many definitions offering differing ways to improve customer relations.

The bottom line, however, is know your customers. Who is making you money and who is not? Next, know your products and operations. What is making you money and how? Finally, take that knowledge and apply it to programs and directives to allow the rest of the organization to anticipate the best way to service customers, prospects, and distribution partners. In many ways, we've been doing this all along...it is, in fact, as fundamental as perhaps the ABC's.

About SEDONA Corporation

SEDONA[®] Corporation (OTCBB: SDNA) provides multi-vertical Customer/Member Relationship Management (CRM/MRM) solution and services specifically tailored to the small to mid-size financial services market. SEDONA's CRM/MRM solution, Intarsia[®], is designed and priced to support and meet the needs of the multiple lines of business of small-to-midsize banks and credit unions. Intarsia provides the entire financial services institution with a complete and accurate view of their customers' and prospects' relationships and interactions. By utilizing SEDONA's CRM/MRM solution and services, SEDONA's clients effectively identify, acquire, foster, and retain loyal, profitable customers. For additional information, visit the SEDONA web site at www.sedonacorp.com or call 1-800-815-3307.