

## Selected Excerpts From ABA Banking Journal



*Could your marketing and branch managers pick out your most profitable customers? And if they could, then what?*

By Lisa Valentine

How banks answer the above questions varies widely, but thanks to increasingly sophisticated technology and a rekindled interest in customer profitability measurement, a respectable number of banks would be able to answer “yes” to the first question. However, if you asked those same banks whether or not they have programs in place to hold onto those profitable customer, find more customers like them, and increase the profitability of their less-than-stellar contributors, very few could answer “yes.”

Customer profitability has been bandied about for more than a decade as a way for banks to increase revenues, and although many banks have gotten pretty good at measuring customer profitability, they often fall short on effectively managing what they’ve measured.

From a technology standpoint, systems are available that allocate costs for each transaction and then map every customer account and its profitability back to the general ledger. Integrating the G/L with customer data allows the bank to accurately assess how well each account contributes to the G/L, explains Rich Weissman, president and CEO of Database Marketing Agency, Portland, Ore., whose Integrated Database Marketing System does just that. Weissman believes this level of

detail makes a huge difference in customer profitability measurement, and is easily doable by most institutions.

### **Don’t throw out the baby**

But while it’s obvious that banks should work hard to keep the profitable customers, what about those unprofitable customers? Shouldn’t you try to get rid of them? Or at least make it less pleasant to do business with your bank in the hopes that they will jump ship and become a drain on your competitor’s balance sheet?

In addition to creating bad will that can have a ripple effect throughout the community, moving unprofitable customers out of your bank only distributes your fixed costs over a smaller group of customer, says Weissman. The key, he believes, is to spread profitability over a greater number of customers by working on making unprofitable and marginally profitable customers more profitable and thereby reducing “profit risk” – the risk of profitable customers leaving your bank. He cites one financial institution that increased earnings by 40% by decreasing their profit risk by 19%. He suggests taking baby steps such as focusing on moving 5% of your customers from slightly unprofitable to profitable each year. “That can be a significant impact to the bottom line,” Weissman believes.

### **Less is more**

Since the 1990s, banks have worked hard to develop a sales culture where cross-selling was seen as a panacea to all ills. The assumption was that the more products and services a customer has with your bank, the more profitable they are. While that may be true in some cases, more often than not banks were surprised at the results of their customer profitability calculations. Weissman likens cross-selling to cholesterol – there is good cross-selling and there is bad cross-selling. In fact, some of the most unprofitable customers at a bank can have the most number of products. Unfortunately, banks often load their customers up on products such as a free checking account, free savings account, a credit card with a \$500 credit limit, and an ATM card, each of which is unprofitable by itself, and become even more unprofitable as a combination. However, toss in a home equity line with a drawn-down balance and a mortgage and an automobile loan, and the profitability of the customer changes dramatically.