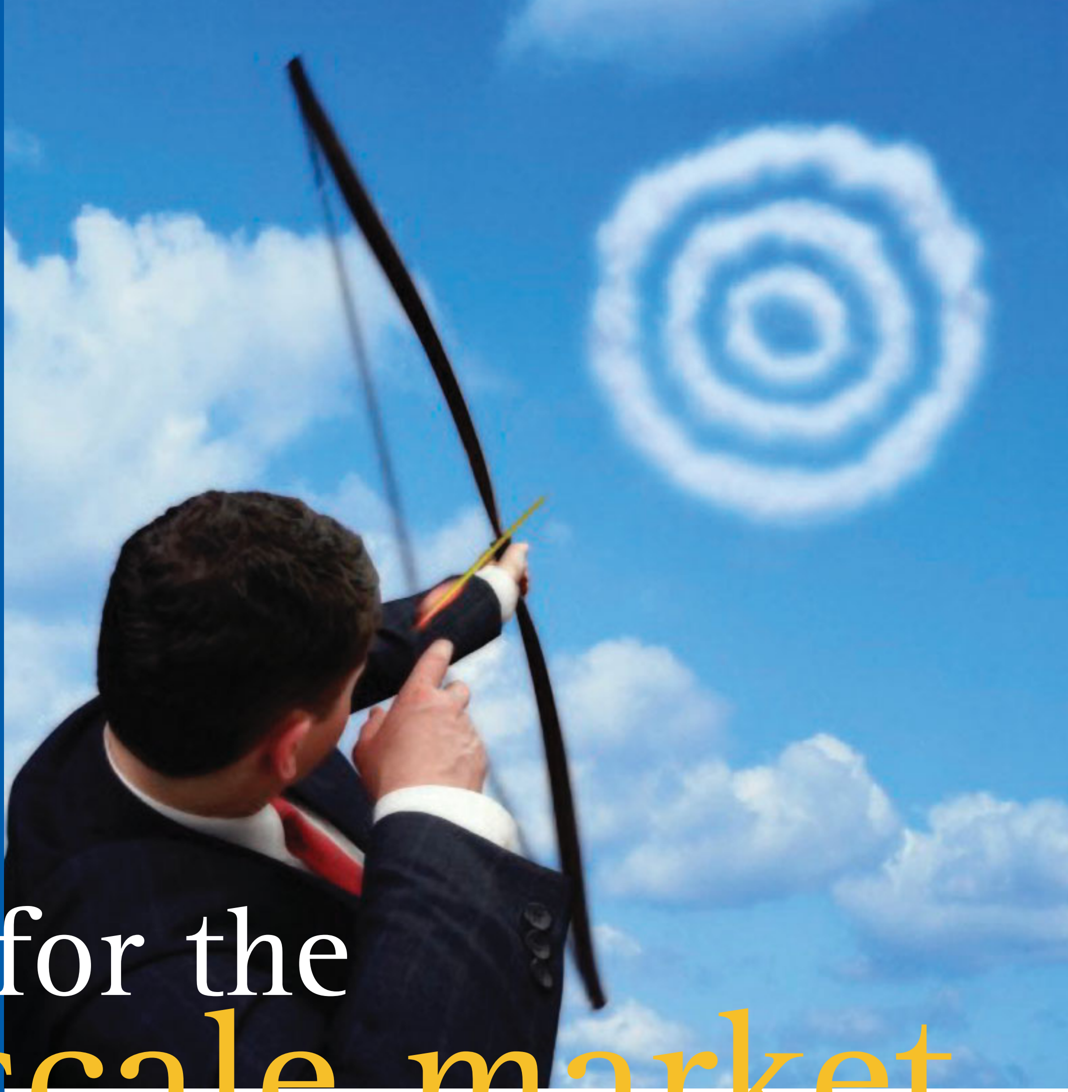
For years, banks have marketed to high-income customers with little success. But have they been marketing to the right ones? Lining up the most profitable product mix with pricing—and aiming for the most profitable customers—will help your bank hit the upscale bull's-eye.



Aiming for the upscale market

by Rich Weissman

Case study 1

Upscale Customer A: **The rate-sensitive professional couple**

Upscale Customer A is a high-income, highly educated professional couple in their early 30s who have three small children. They have a mortgage and an auto loan that consume their paycheck. They are highly rate-sensitive and knowledgeable, and have shopped around and gotten the lowest mortgage rate at a competitor and the best auto loan rate through the dealer. They keep two small no-fee checking accounts, three small kids savings accounts and two nominal individual retirement accounts with high interest rates at the bank. They don't need one-on-one personal banking and look exclusively for the best rates in town. They meet the tests of having high income and a high cross-sell ratio (seven accounts at the bank), but they are highly unprofitable.

Marketing to the "upscale" customer has been a mantra for banks for the past 25 years. As the 1980s upper-middle class evolved from its 1960s middle-class upbringing, a new target market emerged. This market was identified as financially savvier, more desirous of greater personalized attention and more focused on quality and customization than the middle class.

In banking, this market was identified as having high cross-sell potential, and it represented a new tier for distinct targeting. Bankers were quick to search for ways to penetrate this growing segment.

Typically, upscale marketing is defined within the industry as targeting and providing services to those customers who fall shy of private banking and trust management but are not best served by a mass-marketing approach. They don't have the serious wealth to place them in the top tier, but they do have higher incomes and greater needs than the average customer has.

Frequently, upscale marketing focuses on professionals with high incomes, small-business owners with reasonable business assets and well-to-do seniors who have accumulated substantial nest eggs. Banks have introduced a variety of upscale banking programs, generally consisting of different product pricing and delivery options for existing bank products. Some have even branded these product packages and delivery options, calling them "personal," "professional," "preferred" or "premier" banking.

Frequently, these programs offer better-than-market pricing on fees and rates but require costlier service channels and significant marketing expenditures. All of this because these customers have higher income and can produce greater profitability to the bank. Right?

Not necessarily. Upscale marketing results, overall, are not good, and most banks find that, as a group, upscale customers can be the least profitable customers they have. How can this be?

The answer lies in examining the relationships between a customer's income, cross-sell potential and profitability to the bank. The majority of traditionally defined upscale customers tend to be among either the bank's most profitable or least profitable customers. Either they generate significant net income for the bank, or they are a genuine drain on the bank's earnings. Unfortunately, in most banks, most upscale customers are the latter kind, making upscale customers unprofitable as a group. Is it because some upscale customers have high cross-sell ratios and others have low cross-sell ratios, or some are at the bottom of the high-income category and others are at the top?

No, both profitable and unprofitable upscale customers have high cross-sell ratios and comparably high incomes. These criteria, alone, do not guarantee that an upscale customer will be profitable for the bank. Banks must also consider other, more complex factors, including:

- the life cycle of the customer,
- the type of upscale customer (the small-business owner, the professional, etc.),
- the combination of customer accounts,
- and customer preferences and behaviors, which motivate how the customer works with the bank.

(Read the adjoining case studies to see how these factors can affect a customer's profitability.) Profitability among the upscale is typically determined not by the income level of each upscale customer, or by simple cross-sell among the upscale customer base, but by the customer's "profit potential" and "share of wallet."

Profit potential refers to the amount of profitability that can be generated by the upscale customer, given the customer's life cycle and other factors. For many high-income customers, their profit potential (as exemplified by Customer A in Case Study 1) is nominal and frequently negative.

Share of wallet refers to how much of his or her business the high-income customer brings to the bank. When the customer uses the bank for most accounts, and particularly for highly profitable accounts, share of wallet is high (as it is for Customer B in Case Study 2).

Avoiding critical mistakes

What are the critical mistakes that banks make when marketing to upscale customers? Here are the most common ones:

1 **Defining "upscale" based on income alone.** This misses the need to focus more heavily on complex factors. Upscale is not just an income bracket; it's a variety of needs and a way of conducting business with a bank. Simply offering better-than-market, highly personal service based solely upon the customer's income misses the mark. Instead, understanding the different types of customers with high incomes and targeting those with broad and profitable financial-services potential based on a variety of additional factors—such as life cycle and needs—is the key.

2 **Putting too little thought and value into upscale programs.** Developing effective upscale banking programs requires more than pricing existing products at better-than-market rates. It takes packaging products together to ensure that share of wallet is increased and that pricing doesn't become the sole driver; aggressive upselling to profitable combinations; insisting on deep and meaningful customer relationships; and targeting only those upscale customers who have a need and a preference for these kinds of relationships.

3 **Failing to train employees to provide upscale service.** It's not enough to rename a branch officer a personal banker, for example, and to have that employee hand out business cards at high-income neighborhood branches. Employees who work with upscale customers must be able to both identify those who need and are willing to pay for an upscale level of service and provide this service in a meaningful way.

Case study 2

Upscale Customer B: **The service-conscious small-business owner**

Upscale Customer B is a high-income small-business owner in his mid-50s who runs a company with 20 employees. At the bank, he has both a personal checking account and a high-balance business checking account (with hefty monthly fees), a retirement account, a personal investment account, two money market accounts (which don't pay high interest) and a home equity line of credit used periodically for business financing. Customer B prefers to deal with only one banker who can handle complex transactions. He has high income and a high cross-sell ratio (with seven accounts at the bank), and he is highly profitable for the bank.

4 **Failing to adequately assess the performance of upscale programs.** Simple measurements, such as the number of active upscale customers and their cross-sell ratios, are insufficient to build profitable upscale banking programs. Profit potential and share of wallet are the critical indices to use for targeting, program configuration and tracking.

Marketing to the upscale segment can be highly profitable, but it requires finesse and a deep understanding of market segmentation and profitability dynamics to do it successfully. Without this understanding, upscale marketing efforts inevitably become a drain on the bank's income.

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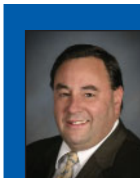

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