

paBanker

The Official Magazine of the Pennsylvania Bankers Association

Sales & Marketing

Cross-Selling: Like Cholesterol, There are Good and Bad Cross-Sales

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Remember when banks could only compete by giving away toasters? Well, things changed with deregulation 25 years ago, and banks have since gone through three evolutionary phases in marketing and sales.

The first phase, the “Product Phase,” was about differentiation based on offering different “products,” each with unique structures. The term “cross-selling” became a standard, and the goal was to sell as many products of any kind to any given customer. Most banks today still operate in this phase, continuing to develop plans that are volume-driven and that utilize mass marketing techniques for selling more accounts to more customers. The only problem is that most volume cross-selling is highly unprofitable.

The second phase, “Segment Phase,” was about target marketing to different demographic groups, focusing on unique market segments. The goal was to sell as many products of any kind as possible to a specific (i.e., segmented) market group. Only a limited number of banks truly moved into this phase, and employed cross-selling relative to specific markets. However, just as with volume cross-selling, the problem is that most segment cross-selling is also highly unprofitable.

Why have these two phases been unsuccessful? The answer is that the highest cross-sell at most banks is typically among the most unprofitable products, customers and market segments. This means the greatest numbers of sales result in negative profitability. Not all cross-selling is positive – there are “good” and there are “bad” cross-sales (just like cholesterol!), but most banks do not have the ability to measure and assess product, package, customer or segment profitability in a meaningful way, and do not have the ability to relate these measures with cross-selling efforts.

A third phase, the “Profitability Phase,” is emerging as the solution. Here, the focus of cross-selling is on financial returns

and not simply volume. Finance plays a key role in defining success, and cross-selling is measured and rewarded based on its profitability contribution. Those few banks that have entered this phase are truly cutting-edge, because they understand that cross-selling for profitability results in superior financial returns. It may not bring in the volumes, but it seriously increases the bottom-line.

In working with our clients, we have developed key marketing and sales assessments and programs for cross-sell measures that are based on break-evens, ROI, and net contribution to the income statement. Cross-sell based on profitability allows banks to understand which cross-selling is profitable, and which is not, and how to target cross-selling for increased earnings. Those banks that have embraced these concepts have become top performers, because they integrate profitable cross-selling in their goals, sales tracking, campaign tracking, and incentive programs. This has a real impact on their sales culture, moving the bank from a volume sales culture to a profitability sales culture. For banks that take this approach, cross-selling is definitely “good.”

About the Author: *Rich Weissman is president and CEO of The Database Marketing Agency Inc. (DMA), a national systems and service provider to banks and credit unions throughout the U.S., providing sophisticated profitability, marketing and sales support through DMA's award-winning IDM™ (Integrated Database Marketing) system. Rich holds his undergraduate degree (summa cum laude and Phi Beta Kappa), and two masters degrees in the social sciences and research, and completed his Ph.D. coursework in Statistics and Quantitative Analysis from New York University in the school of social sciences and in the business school. He also completed the Marketing Management program from Stanford University.*

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