Upscale Marketing: It's Not What You Think

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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 (the "Martha Stewartization" of the upscale market) and customization than its middle class counterpart.

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

Typically, upscale marketing is defined as targeting and servicing those customers who fall shy of private banking and trust management, but who 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 needs greater than those of the "average" customer.

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. They are in between the mass market and the true private banking/trust market (neither Average Joes nor Hiltons).

Banks have introduced a variety of upscale marketing programs, generally consisting of different product pricing and delivery options. 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/rates, costlier servicing channels and require significant marketing expenditures. All of this because this market has higher income, and can produce greater profitability to the bank. Right?

Not exactly. The problem is that, overall, upscale marketing results 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 correlation between income and cross-sell with profitability. Most traditionally defined upscale customers tend be either among the most profitable or the most unprofitable customers in the bank (and not in the middle). Either they generate significant net income to the bank, or they are a genuine drain on the bank's earnings, all within the same bank.

Within each bank, upscale customers are most likely to be found at the extremes and, unfortunately, more likely to be found at the highly unprofitable extreme, so that as a group they are unprofitable. Is it because some have high cross-sell and others have low cross-sell, or some are at the bottom or top of the high income category?

No, the profitable and unprofitable upscale customers both have high cross-sell ratios and comparable incomes. The difference lies in other, more complex factors.

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

Compare them to upscale customer "B," who is a high-income, small business owner in his mid 50s, running a company with 20 employees, with a personal and high balance business banking checking account (with hefty monthly fees), a business employee retirement investment account, a personal investment account, two money market accounts (that don't pay high interest rates), and a home equity line of credit used for periodic business financing, who looks to deal with only one banker who can handle complex transactions. Customer B is also high income and high cross-sell ratio (also a cross-sell of seven accounts at the bank), but highly profitable to the bank.

Having high income and high cross-sell alone is not enough. Understanding life cycle, type of upscale customer, specific account combinations that are purchased, and preferred behaviors that motivate how they work with the bank are the critical factors. 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 variables. For many high-income customers, their profit potential (as given in example A above) is nominal and frequently negative.

Share of wallet refers to how much of the quality business is brought to the bank by the high-income customer. When the customer uses the bank for most accounts, and particularly for the highly profitable accounts, then share of wallet is high (example B above).

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

1. **Defining "upscale" based on income alone misses the need to focus more heavily on complex factors.** Being upscale is not just an income bracket; it's a variety of needs and a way of conducting business with your 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 lifecycle, complexity and needs — is the key.
2. **Defining upscale programs is not just a re-packaging of standard products offered at better-than-market fees/rates.** Providing upscale banking programs is not simply taking existing products and cutting price. It's packaging them together to ensure that share of wallet is reached, and that pricing does not become the sole driver; it's aggressive up-selling to profitable combinations; it's insisting on deep and meaningful relationships from the customer,

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and only targeting those who have the ability and need to do so.

3. **Defining upscale programs is not just re-naming a branch officer a "personal banker" and handing out an impressive business card at high-income neighborhood branches.** Instead, it's delivering services to those upscale customers who have the profit potential to cover the high costs of personalized service. It's focusing on those types that need and are willing to pay for this service level, and then providing it in a meaningful way.
4. **Assessing the success of upscale programs is not about using simple measurements, and requires looking at much more than just the numbers of upscale customers a bank has and the simple cross-sell ratios.** Profit potential and share of wallet need to be 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 in order to be successful. Without this understanding, the upscale marketing efforts can and does result in negative profitability and a drain on the bank's income. ❖

About the Author

Rich Weissman is president and chief executive officer of The Database Marketing Agency Inc. (DMA), Portland, Ore. DMA is a national systems and service provider to financial institutions nationwide, providing profitability, marketing and sales support. Weissman has more than 25 years of marketing experience. Prior to founding DMA in 1996, he was marketing director at Bank of America, U.S. Bancorp and National Westminster Bank USA, plus served in market research in the packaged goods industry. Weissman has an undergraduate degree, two master's degrees and a Ph.D. from New York University and has completed coursework at Stanford University.