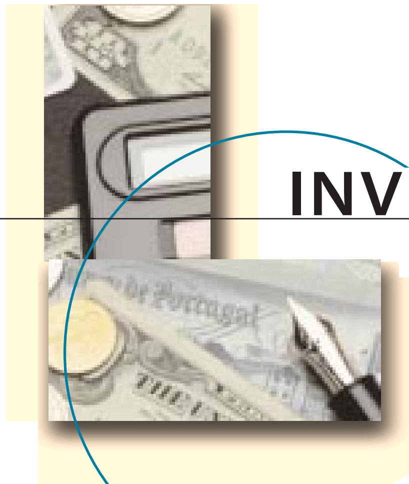


INVESTING IN CUSTOMERS:
THE FINANCIAL SERVICES

A Compilation of Peppers and Rogers Group

articles and ideas on Customer Based Initiatives

in the Financial Services industry

Peppers&Rogers Group

INVESTING IN CUSTOMERS:
THE FINANCIAL SERVICES INDUSTRY

The financial services sector has long been a leader in implementing advanced customer-based strategies. The industry's top executives understand that capturing and sustaining market advantage in this fiercely competitive space hinges on the ability to leverage the most important asset to modern business, the customer. The following compilation of articles from Peppers and Rogers Group takes an in-depth look at how leading financial services and insurance firms such as Charles Schwab, Royal Bank of Canada, Washington Mutual and Progressive are putting cutting-edge Customer Relationship Management strategies to work. Taken from *1to1 Magazine*, *INSIDE 1to1*, and *INSIDE 1to1: Privacy*, these articles tackle key financial services issues, including one-to-one financial planning and asset management, the role of personalization and how to fully unlock the value of customer data.

INCLUDED IN THIS REPORT

Making a Smart One-to-One Investment

Financial Planning: meeting customer needs.

inside 1to1®

May 2002

Despite its recent strides, the financial services industry is still hammering out the process of meeting customer needs. The typical investment firm can take weeks gathering a client's investment data before producing a report; and once delivered, it may not be distilled down to the facts relevant to the individual. "Meeting with someone who's never done a financial plan before, and giving them pages and pages of numbers can be very overwhelming," says Tim Steffen, financial planning director at Robert W. Baird & Co.

Steffen says Baird was dogged by such difficulties at one time. But once the firm matched technology with customer-based strategy, its advisors were able to respond to customers' needs in a more one-to-one fashion. And folks at this $50-plus billion firm are enthusiastic about the dividends of the investment.

Unique Customers, Unique Treatment

It's hard to underestimate the importance of meeting customers' needs in financial planning. While the average customer's goals can be easily pigeonholed -- how to invest for a child's college education, for instance -- no two scenarios are ever the same. "Both the curse and beauty of our business is the fact that every single client's situation is different," says Jason Edmonds, VP of financial investments.

Yet financial planning services have been slow to grasp a key component of successful CRM: integration. At least half of financial planners' time is spent on non-client-facing duties, such as inputting information into client management and modeling systems. Firms have tried to streamline the process with automated systems, but according to a recent Forrester survey, just 37 percent of advisors currently use these tools regularly. The reason: In more than half of the firms surveyed, these systems aren't integrated with client-management databases, so advisors still get stuck entering data manually.

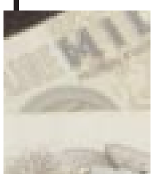
> *Financial planning services have been slow to grasp a key component of successful CRM: integration.*

After trying a hodgepodge of desktop solutions, and attempting to develop an in-house system, Baird's search for a solution led it to NetDecide. Other vendors currently in the space include Emerging Information Systems Inc. (EISI), Financeware and Finance Engines. But a key benefit of NetDecide, says Baird: Having customer and market information automatically updated and easily accessible for advisors. The system also enables drip irrigation, so advisors can build holistic plans that take into account changes in the market as well as clients' financial statuses and goals.

"Now that we have a new product that has enhancements over our original planning, we now have more clients who are interested in looking at financial planning," says Steffen. "Part of that could be tied into what's going on in the market today, with clients more focused on planning, as opposed to picking the latest hot stocks, but we've definitely seen an increase in the number of plans that we do."

To maintain momentum, Baird plans to give clients Internet access to financial planning reports. Slated for this fall, Steffen foresees this functionality affording customers more flexibility, and also helping advisors further hone in on customers' needs. If a client looked at an educational planning report, for example, Baird could shoot that person further targeted information about an educational IRA or a 529 plan.

Ultimately, says Steffen, "Wealth management is like Kleenex and Crayons -- it's everywhere. We like to think we're differentiating ourselves by taking a more client-centric and customer-focused approach." Now that sounds like a plan.



Banks Working Hard To Identify Their MVCs

inside 1to1 PRIVACY

Financial Institutions use customer data to create valuable and profitable relationships with customers.

April 18, 2002

Identifying your Most Valuable Customers (MVC) is a fundamental part of any successful customer-based program. A growing number of financial services firms are conducting customer valuation analyses in order to pinpoint profitability. More significantly, firms are using that information to treat different customers differently, which can help cut costs and maximize the value of each relationship. Some well known financial institutions now collect and analyze customer-interaction data as cornerstones of successful customer-based initiatives, including Bank of America, Royal Bank of Canada, Washington Mutual and many others.

Determining customer profitability, then allocating resources in order to leverage MVCs, has caught the attention of privacy watchdogs. Consumer advocates question the banks' intentions, arguing that the technology used to identify MVCs is potentially invasive to privacy. The concern is that the information collected can be sold to companies, including telemarketers. Banks assert they have no intention of selling customer information to outside companies or to punish "money-losing customers," also known as below-zero customers (BZs). Rather, they argue, the primary goal is to find their best customers and work at keeping them.

In order to succeed at CRM while protecting privacy, financial services firms must position themselves as Trusted Agents by acting on behalf of their customers. A privacy program that allows firms to collect and leverage customer data while protecting privacy is the key. In doing so, the revenue opportunities are great, but so is the risk if the proper steps aren't taken. "Banks are so giddy about the technology, about their new ability to gather and analyze data, that they haven't thought enough about the privacy issues," said Kim Collins, research director at Gartner.

Can Personalization Sustain Financial Services Revenue?

BY DON PEPPERS

January 2002

Financial Services personalize customer interactions, resulting in customer retention and revenue possibilities.

One asset that retail financial services firms possess is a wealth of customer data. A new report by Peppers and Rogers Group, Financial Services Marketing magazine, and Roper Starch shows that the financial services industry has put that asset to good use. Over the course of 2001, using customer profiles to personalize interactions and products has become a driver of customer satisfaction and loyalty in the space.

But is personalization enough to sustain loyalty and revenue, and reduce customer churn in the long term? According to the report, "One to One in Financial Services: New Strategies for Creating Value Through Customer Relationships," the answer is no. While three quarters of financial services executives surveyed can identify their Most Valuable Customers (MVCs), less than one third believe they can identify their best targets for building share of customer via cross-selling and up-selling. Moreover, customer expectations of service are on the rise, in particular among more affluent clients. Meeting the needs of this group could have a big impact on the bottom line, but personalization alone may not be enough.

Eyeing the revenue rainbow

But revenue is in sight for financial service providers that step up their customer-based initiatives. Three in 10 consumers experiencing good relationship management say they will likely add one or more products or services; and 55 percent of consumers who rate their primary financial institution high on service quality and CRM say they are "very likely" to consolidate their business with one provider.

Finding the end of the revenue rainbow requires financial service firms to actively become solutions providers, using rich customer data to anticipate the banking, lending, brokerage, and insurance needs of individual customers. That said, there are some concrete steps that a financial services company can take to build and leverage customer relationships:

* Identify and interact with MVCs and Most Growable Customers (MGCs). Less than one third of financial services companies use data for customer tiering, or to develop incentives for top customers. Account profitability, transaction size and frequency are basic variables for differentiation.

* Be consistent across touchpoints. Less than one fourth of providers "remember" each customer interaction; but without consistency, defection is likely since customers will have to repeat information. If necessary, appoint a cross-functional team to oversee the integration of customer data across channels and departments.

* Use electronic channels intelligently. Wells Fargo reports that its online customers are

> 150 percent more profitable than those who don't use the channel. Yet, CyberDialogue says that as much as 39 percent of active, adult Internet users are not interested in conducting financial service transactions via cell phones. Strong relationships with MVCs and MGCs will help firms retain profitable online customers as the use of online and wireless tools multiply.

These steps, when matched with high levels of customer convenience – such as good transaction speed, up to date account information, and pre-populated electronic forms – will help turn a financial services firm into a solutions provider. No wonder 81 percent of financial services firms expect to have a CRM program in place by 2004! ■

Completing the Data Puzzle

BY BILL MILLAR

The need for personalization grows in the Financial Services industry.

1to1 magazine
October 2001

For most financial-services firms, personalization is alive and well among top-tier clients. In many cases, bankers, financial advisers and insurance agents remember preferences and personally help these valuable customers navigate financial decisions. Where the firms fall short is in providing personalization to their middle- and lower-tier clients, for whom personal advisers are too costly to provide.

According to a study by financial-services consulting firm Speer & Associates of Atlanta, only 2 percent of the 147 financial-services providers they polled achieve any level of personalization. Even when personalization is in place, it's generally of the "Yahoo!" variety, where clients can customize home pages, pay bills and sign up for email alerts. And while this may be an adequate level of service for some, clients who want a firm to interact with them according to their individual needs and preferences will find it sorely lacking. In fact, a recent study by Peppers and Rogers Group and Roper Starch Worldwide finds impressive benefits for firms that adopt a relationship strategy on all customer tiers. About one-fourth of consumers (26 percent) who rated their primary financial-services provider as "poor" on Customer Relationship Management said they were likely to switch away one or more products during the next 12 months, according to the report. But only 1 percent of consumers who rated it as "high" said they were likely to do so.

Even at a conservative $100/household/year profitability, reducing attrition by only 9 percent would translate to substantial money for the average U.S. retail financial- services firm. An institution with just 20,000 customers would increase profits by $180,000 by incorporating CRM practices such as recognizing returning visitors and anticipating their needs.

Most financial-services executives, even without these findings to prod them, realize that to remain competitive in the future, they need to adopt a more customer-focused strategy. What, then, is standing in their way? One obstacle, according to a Forrester Research report, is acquiring the necessary customer data. In Forrester's "Personalizing Financial Services" report, 68 percent of the 50 financial-services firms they interviewed cited "getting good data" as the biggest challenge in personalization.

First step: complete, accurate data

In many cases, the information that firms have is incomplete, because customers' financial assets are spread across several institutions. Online financial customers do business with, on average, more than five providers and have little inclination to consolidate what they own or owe, according to Forrester. Studies in the United States indicate that the typical bank customer has seven banking relationships and that no more than four are likely to be with one financial institution.

If a firm can provide a high level of service and relationship management, however, 55 percent of consumers in the PRG/Roper Starch study said they would likely consolidate their business with one provider. Since profile data is necessary to create a more personalized experience, this suggests a bit of a Catch-22. The advice of many executives? Start with what you have and then supplement with third-party sources. Also, where possible, ask customers to disclose information that can be used to serve them better. The key, they say, is to convince customers that providing this information will directly benefit them.

"Shifting from thinking about products to thinking about customers can be a challenge."

When PNC Bank relaunched its brand, the ensuing communication campaign (summer 2000) stressed: "Everyone has a story. Come tell us yours." According to Joseph C. Guyaux, CEO, PNC Regional Community Bank, "Employees don't like to ask profiling questions, and consumers don't like being profiled." So PNC's approach was to show benefits for each question asked. Instead of asking customers for their email address, they asked them how they would like to be contacted in an emergency. Says Guyaux, "The conversation might lead to noting where the customer works or what their email address is." Likewise, the offer to send relevant-and only relevant-marketing promotions often led customers to volunteer their email addresses.

Defining customer needs is critical

One of the direct benefits of detailed profiles is the ability to home in on customer needs and find ways to meet those needs. Firms moving into this realm recognize this as a critical component of their personalization strategies. Unfortunately, shifting from thinking about products to thinking about customers can be a challenge. Most firms are organized around products, and even those that have shifted still focus more on product sales than customer needs.

Tom Niehaus, managing partner at Peppers and Rogers Group, says, "Financial-services firms have to work hard to get into the minds of their customers. Most firms, when asked to list customer needs, mention 'CDs' or 'investments' rather than 'long-term savings' or 'aggressive portfolio growth.' "
In a study conducted by First Manhattan Consulting Group, 54 percent of financial-services respondents reported that "a lack of understanding of customer needs" was keeping them from finding a profitable Internet strategy. At a recent Bank Administration Institute conference on retail delivery, bankers were asked to answer a series of questions posed earlier to consumers. Interestingly, with few exceptions, the bankers were out of synch with customers in a number of areas. For instance, when asked what service most financial consumers would pay for, 48 percent of bankers said advice and planning. In reality, only 20 percent of consumers said they'd pay for those services. When asked whether consumers would agree with the phrase "My life is different because of the Internet," 80 percent of bankers said yes, while only 33 percent of consumers did in fact agree.

Royal Bank of Canada (RBC) has known the importance of focusing on customer needs for years. According to Shauneen Bruder, senior VP, North American Markets, "We are four releases into what is likely to be a six- to seven-release initiative." Early releases focused on demonstrating that RBC could better tailor offers through leveraging customer information. The bank concentrated on improving response rates and offering better value propositions for clients based on information.

The initial aim was to develop analytic models to help RBC quantify a customer's current and future potential with the bank. The current value models take into account profitability, lifetime value, risk and vulnerability to attrition. Further models are then used to set the bank's strategy to retain, grow, control risk or optimize costs for individual customers. Recognizing the limits of viewing customers only through a "profitability" lens, RBC did extensive research to come up with needs-based segments to use in conjunction with the "value" classifications. The bank recognized that to develop different value propositions and tailor a client experience, it would have to create segments that were homogeneous in nature.

The resulting segments mirror a customer's financial life cycle. "Getting Started" customers are youthful, while "Life Stage 2" customers are concerned with building a financial portfolio. Other segments-"Preserving" and "Nexus"-are focused on 18-34-year-olds. RBC also discovered that, regardless of segment, each individual has needs that fall into set categories: "Day to Day," e.g., deposits and withdrawals; "Big Events," such as financing large purchases; and "Ensuring the Future," which can include retirement saving and aggressive investment.

Segmentation led to some interesting discoveries. "Nexus" clients, for instance, often contribute little at this point, but they represent tremendous future opportunity. So RBC established certain priorities for this group: to increase full access to banking, acknowledge them and improve profitability. Under these directives, the bank is developing products and services to match the segment's specific needs.

This year, RBC extended its strategy with the segments even further by developing a proxy that would enable the bank to score clients and non-clients alike. Gaétane Lefebvre, VP, Strategic Marketing Research and Analytics, explains that "by asking eight to 10 questions, we can identify which segment they fall into and present the appropriate value proposition to them." Adding these questions to the research studies the bank regularly conducts will help deepen the understanding of segment needs.

Consistency across channels

With a profile built and customer needs assessed, some financial firms begin to tackle yet another hurdle-supporting a consistent, seamless conversation with customers across multiple channels. A 1999 study conducted by Harvard University, Georgia State University and the University of Rochester found that financial-services firms which provide consistent service across channels fare better than those that have stellar performance in one channel and below-average service in another.
Senior management at PNC Bank recognized early on that in order to earn the right to build revenue, they first needed to build relationships. The result? "Customer Value Management," an events-based strategy to enhance customer relationships. Guyaux sums up the bank's vision this way: "Each customer should feel that they count, and the experience they get [should] support that feeling."

For each event, PNC looks at whether the customer sees the value in improving service quality or customizing services or products to fit his or her needs. To do this, PNC creates an experience "blueprint" of all the interactions a customer can have with the bank. The bank then determines which areas of the blueprint most affect the customer's relationship with the bank. At this juncture, PNC asks two questions about each interaction. "Is this an area where standard service quality is expected?" and "Will any advantage be gained from trying to personalize the interaction beyond the usual friendly greeting by name?"

In looking at the "stop payment" process, for instance, PNC could find that service quality is an important factor in building the relationship and would therefore focus on making the transaction as efficient as possible. When a customer is overdrawn on an account, however, the bank might determine that personalizing the interaction would be the way to strengthen the relationship. The next step is to estimate the potential value to the customer, and to the bank, if the proposed change is implemented. Finally, PNC implements the changes that are most likely to grow and enhance relationships.

To ensure that these interactions are consistently delivered across all channels, PNC is implementing a Web-based customer strategy it calls Project Genesis. "What we were missing was delivery capability to all points of customer contact," says CIO Anuj Dhanda. Project Genesis links not only customer information but the entire set of banking capabilities through an integrated client session using the same technology across all channels. "Project Genesis will enable us to integrate customer touchpoints via the Web, telecommunications systems and at the branches," Dhanda explains.

For example, a loan-process conversation may start in the branch, continue online and be finished in the bank. In between, the customer might have questions and wish to discuss them with an adviser at the contact center. "You don't have to be in any one place anymore, and this provides convenience for the customer," Dhanda says. It also provides the consistency of service that is key to delivering a personalized experience no matter how the customer chooses to contact the firm.

"Each customer should feel that they count, and the experience they get [should] support that feeling."

Delivering true personalization

The most sophisticated financial-services firms have dedicated countless resources to acquiring complete customer profiles, creating needs-based segments and delivering consistent conversations across the organization. There is one final aspect of personalization, however, that many are missing. To truly personalize a relationship, the financial institution must be able to solicit customer preferences and then change the way it does business to satisfy individual customers' needs. "In their day-to-day interactions with organizations," affirms Niehaus, "customers want to be recognized and remembered individually."

For example, if a customer consistently uses online channels to communicate and transact with his or her bank, mailing a check-reorder form to that person ignores the customer's implied preference. If the bank sends the notice via email and enables the customer to reorder with a simple reply, it may go a long way toward locking in that customer's loyalty. The key here is that these preferences, while applicable to large numbers of customers, must be executable by the individual customer.
The challenge for most institutions is overcoming a legacy of "that's the way we've always done it." True personalization will become possible only to the extent that firms can open up processes and allow customers to dictate how products are delivered, how services are configured-and, essentially, how they themselves are treated.

Getting Personal at Progressive

BY BILL MILLAR

inside 1to1®

Progressive adds value with a customer focus.

October 2001

Progressive Insurance is a product-focused company. As business IT director Frank Holowach explains, "Our strategy is to make our product (primarily auto insurance) as widely available as possible to as many consumers as possible." But that said, "Our first premise is to be the insurer of choice," continues Holowach. "So the big wins for us are strategies that drive customer satisfaction, reduce costs and increase retention." Is it CRM? "We don't call it that," says Holowach. But that's not to say the company isn't customer focused. You be the judge:

On the scene

One great way to delight customers is rapid response. Progressive operates some 2,200 "Immediate Response Vehicles (IRVs)," explains Scott McPherson, IT executive for claims technology. "We aim to inspect every car within nine hours of any accident," he says. Each IRV is laptop equipped, featuring wireless applications to aid dispatch and software for expanding vehicle views to identify damaged parts, enabling on-site loss estimating. In over 50 percent of cases, "We're able to cut a check right there on the spot," says McPherson. Most checks are still hand written, but in order to reduce cost, Progressive is rolling out in-vehicle check printers. The result: fewer errors and all information relating to the event can be captured electronically.

Where, when and how

Holowach says Progressive's strategy also means "interacting with customers where, when and how they prefer." This includes agents, call centers, the Web, and even fax. A big initiative at Progressive is making a single view of its customers available to all other touchpoints in "near real time," adds Holowach.

On the Web, policy holders can make payments, view their claims, or service their policies. "It's powerful," says Holowach, "and it allows our customers to take control." The strategy also deflects an increasing number of costly calls from the call center or an agent to the less costly Web channel.

The final piece of Progressive's strategy deals with customer demographics and patterns of behavior. As Holowach explains, "We do an enormous amount of data mining to better understand our customers: who should we be targeting, what their needs might be, etc." Operating five different data-mining technologies, the company believes that, "In the end, it improves our products, it fine-tunes our marketing, and it improves the quality of our service for customers," says Holowach.

Is it CRM?

Although Progressive's primary strengths are product driven, it's very much a customer-focused company. "We believe we have some of the best products in the business," boasts Holowach, but that would "mean nothing if we didn't start out with a fundamental business orientation of understanding our customers, and then doing what's right for them. If you want to call that CRM, that's OK by us." What do you think? ■

Washington Mutual Banks on One to One

BY JO BENNETT

Washington Mutual discovers different ways to make banking a more favorable customer experience.

1to1 magazine
September 2001

Just step through the front door of the Las Vegas branch of Washington Mutual (WaMu), and you'll know that this isn't your average financial institution.

The khakis-clad "concierge" at the front door could be the first tip-off. If you're a parent, the brightly colored "WaMu Kids" play area that's outfitted with video games and a maze of tubes for children to crawl through might catch your attention. But one thing you're sure to notice right away is the absence of long teller counters and lines of impatient customers. Here, bank representatives roam the floor in much the same manner as salespeople in any retail store-except they're armed with wireless devices known as E-Tellers, which allow them to process transactions as they stand talking face-to-face with customers. Need to discuss refinancing your mortgage? Any of these representatives can direct you to a comfortable customer-consultation area. In this novel approach to what customers can do at banks-which WaMu has dubbed "Occasio" (Latin for "favorable opportunity")-you can even buy items such as financial software and kids' piggybanks.

Making each interaction count

There's nothing average about $220 billion Washington Mutual, which is both the largest thrift bank and the largest mortgage originator in the nation. The Seattle-based financial-services company has seen a tenfold growth in assets over the past five years, driven largely through acquisitions. But one danger in getting so big so quickly-and one that those interviewed at WaMu are the first to acknowledge-is losing a clear picture of who customers are and what they want. "The larger we get, the greater the challenge becomes," admits Gail Shelly, senior VP, quality services management. "That's why every interaction we have has to be a special interaction." Meeting that objective, she says, starts with being open and responsive to customer feedback.

In fact, feedback is precisely what spawned the retail/café-inspired Occasio approach. The new branch concept was 18 months in development, a labor of countless focus groups, surveys and market studies administered in myriad formats. Naturally, customers participating in these efforts didn't specifically ask for amenities such as play areas and untethered tellers. "They would tell us things like, 'I don't want to do my banking when I have to take my kid' or 'I hate standing in line,' " says Libby Hutchinson, first VP, corporate public relations. "We learned that most people view banking as a necessary evil. We wanted Occasio to be a place where they-should I dare say-would want to go." Today, there are 24 Occasio branches, with about 70 slated to be retrofitted or newly constructed by the end of the year.

Initiatives such as rolling out branches like the one described above are all about freeing up employees to focus on helping people. For instance, teller towers dispersed throughout each Occasio branch have automatic cash dispensers, so employees don't have to waste time counting out cash. "They're interacting with customers and listening to their needs," Hutchinson explains.

Do-it-yourself customers also can stop by and research investment options using the Internet terminals that are scattered throughout each site.

Profitability and customer satisfaction

On the ROI front, Occasio sites are showing profitability in a quarter of the amount of time traditional branches usually require, says Hutchinson. Occasio sites don't have a vault, so they cost less to build than regular banks. And although Hutchinson couldn't divulge numbers, she claims that the department store-like "shop within a shop" design and approach have proved natural conduits to retention and cross-selling.

There also have been trickle-down benefits in what WaMu has learned about staffing and training. For instance, the company didn't want to man its Occasio branches with "tellers"; these folks were to be "sales associates," in WaMu vernacular. The bank developed a new process for screening candidates to staff its first Occasio branch and found that salespeople from a variety of sectors often had the desired attributes. As a result, when recruiting and considering job candidates, the organization now tends to look farther outside the financial-services box than in the past. "We're working on profiling people before we hire them so we can determine whether they have a propensity for service," says Shelly. And in training, she adds, "the important part is focusing not just on process-how that equipment works-but what our strategies are, how our products work and what are the most appropriate products for our customers."

The success of the approach can also be seen in customers' satisfaction and in their willingness to recommend the bank to friends and family, says Hutchinson. For instance, in most of the markets WaMu serves, approximately 85 percent of customers would refer the bank to a friend. The percentage jumps into the 90s in markets where Occasio branches exist, such as Las Vegas. And in a recent national survey of more than 140,000 consumers, in which 27,000 responded (conducted by SatMetrix Systems, a solutions provider for monitoring the customer experience in real time), WaMu not only ranked highest in terms of customer loyalty and best practices, but was also one of only three large banks to outperform its regional counterparts.

Using technology and innovation to facilitate relationships is likely to prove a solid investment.

It's all about people

In an age where technologies such as Web banking and ATMs are increasingly replacing the human touch, this forward-thinking approach to using technology and innovation to facilitate relationships, rather than merely put them on autopilot, is likely to prove a solid investment. But Occasio is just one example of many ongoing initiatives on WaMu's blueprint for delivering "service to scale," Shelly points out.

Managing employee relationships has also played a critical role. For instance, several years ago the company started basing a portion of senior executives' compensation on meeting objectives such as increased customer satisfaction and share of customer. Today, every employee's compensation is tied into these metrics. Employees are also offered incentives to make suggestions to the marketing department. That vote of confidence in the importance of collaboration translated into more than 27,000 calls from the field last year.

"Our challenge is scaling up, staying known as those people who really care," says Shelly, "the ones who are always trying to find another way to meet your needs because they know you don't really care how it's done-just come up with a solution and be human about it. That's who we are now. The challenge is holding on to that, and I think we can do it."

Charles Schwab's Best Asset: Its Customers

BY BILL MILLAR

inside 1to1®

Charles Schwab focuses on customers, not competition.

September 2001

The financial services firm Charles Schwab & Co. believes it knows how to succeed amid today's slowing economy. "A lot of companies focus on what the competition is doing," explains Gary Korotzer, VP of loyalty marketing. "But our company-wide focus is squarely on the needs of our customers. Figure out what they need and want, and then go about providing it."

Building loyalty and share of customer is a key component of the company's strategy, especially with its "Signature Services" program. To better assess this group of customers, Schwab has differentiated them into three needs-based groups, using portfolio size and trading habits as proxies for the firm's Most Valuable (MVC) and Most Growable Customers (MGC). Categories range from "Signature Level" customers with $100-500k in assets all the way to "Platinum" level MVCs with over $1 million in assets.

The basic idea is the higher up the value chain the customer lies, the more services Schwab offers. According to Korotzer, "We're innovating and striving to meet client needs by further sub-segmenting our MVC population and developing new products and services to expand our capability and reach." For example, at the Platinum level, individual customers have access to their own eight-member team of advisors, receive priority communication channels, customized research reports, and trading tools such as a stock screener and an alert manager.

But portfolio size isn't the only value criteria Schwab uses to identify its MVCs. The firm also targets its most active traders. In addition to dynamic pricing for these transaction-happy customers, Schwab offers StreetSmart Pro, a customizable trading cockpit open to clients who trade at least 120 times per year.

To gauge the success of its program, Schwab looks at numerous measures including attrition and asset and trade consolidation. The firm wouldn't discuss specific ROI, but Korotzer says the Signature program is meeting or exceeding every objective. "Wherever we look -- retention, asset consolidation, trading lift -- the return is positive," he says. From here, Schwab intends to continue improving its loyalty programs in the hopes of driving more revenue from expanding share of customer. The key? "At the end of the day," states Korotzer, "we care less about what our competitors do, and more about what our customers need and want."

Practice Leader

BOB LANGER PARTNER
PEPPERS AND ROGERS GROUP

As a partner in Peppers and Rogers Group, Bob Langer brings over 20 years of leadership experience in all aspects of sales, business, new market development and Internet and Web personalization technologies. He has applied his skills to market-leading global organizations as well as early-stage venture-backed companies.

Bob has a unique perspective on the challenges organizations face in the application of technologies to specific customer-facing groups. His understanding of strategic selling techniques, customer empowerment and valuation, self-service efficiencies and partner leverage has given Bob insight to what is realistically achievable.

Recently, Bob served as the Director of Online for Dell Computer Corp. In this role, he was responsible for the overall transformation of Dell's business from an offline process to an Internet driven online environment. Central to this effort was the development of Dell's extremely successful Premier Page platform providing customized and unique experiences for the business customer. This highly scalable platform has been delivered to and is utilized by over 100,000 business customers. Additionally, Bob led the development of complimentary web services and properties designed to enhance the overall customer relationship with Dell.

Earlier in his career at Sun Microsystems, Bob was responsible for the development of the Financial Services line of business. His vision for the application of leading edge technologies combined with the re-engineering of handling information distribution in a real time environment was instrumental to establishing this market into the leading vertical for the company. Over the next 7 years Sun Microsystems' Financial Services market generated in excess of $1B in annual revenue.

Bob has served on several Boards of Directors and Technology Advisory Boards, and holds a Bachelors degree with honors from Fairleigh Dickinson Univ. in NJ.

Practice Leader

MICHAEL LENGEL PRINCIPAL
PEPPERS AND ROGERS GROUP

Michael has over 15 years of experience consulting to some of the world's finest management teams on pivotal issues of growth strategy development, marketing, business development and organization design. Michael has advised clients in a diverse set of vertical markets, including financial services, consumer, retail, hospitality, transportation and industrial sectors.

Before joining Peppers and Rogers Group, Michael was an officer level consultant with Monitor Group, a premier strategy firm best known for thought leadership in market strategy development. He was responsible for generating new business in retail, services and utilities sectors, directing major client engagements and creating innovative intellectual capital for the firm.

Michael holds a BS in Industrial Engineering from Stanford University and an MBA from the Amos Tuck School at Dartmouth College.

About Peppers and Rogers Group

Founded in 1993 by Don Peppers and Martha Rogers, Ph.D., Peppers and Rogers Group is a management consulting firm recognized as the world's leading authority on customer-based business strategy. It is dedicated to helping companies compete and win by identifying differences within the customer base and using that insight to maximize the value of each and every customer relationship.

Recognized by the World Technology Network as having played a significant role in developing the field of CRM, Don Peppers and Martha Rogers, Ph.D., are the co-authors of the revolutionary *The One to One Future* and a series of business books that further develop the unique one-to-one methodology espoused by their firm. Peppers and Rogers Group is headquartered in Norwalk, Connecticut with a domestic and international network of 16 offices, employing over 150 employees diversely experienced across all industries. For more information about Peppers and Rogers Group, visit their web site at www.1to1.com.

Peppers&Rogers Group