
*Example of a Customer
Profitability Olympian: RBC*

An extract from
*Customer Analytics Triathlon:
From Data to Knowledge to Wisdom*
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EXAMPLES OF OLYMPIANS

In order to translate theory into reality, Celent spotlighted Royal Bank of Canada, as a customer profitability Olympian, which earns a gold medal overall.

OVERALL GOLD: ROYAL BANK OF CANADA

It is rare that a single bank epitomizes best practices across the multiple dimensions of customer value management. Royal Bank of Canada (RBC) is one of those unique banks. From gathering data to translating data into knowledge and knowledge into executable wisdom, RBC has excelled and earns a gold medal. Across the board, customer analytics drive the strategies and tactics applied to the Canadian banking and wealth management customers of RBC's Canadian Personal and Business segment (RBC CP&B includes personal banking, business & commercial banking, cards & payment solutions, wealth management, and global insurance business). The secret to success is not only technical but also cultural. Customer value management permeates its organizational structure and culture. Because collaboration is encouraged and rewarded, RBC CP&B has been able to avoid getting bogged down in the data gathering exercise and mitigate the nit-picking that activity-based costing can provoke (roughly right is better than precisely wrong).

RBC CP&B embarked on implementing a behavior-based customer profitability model within personal banking in 1998. It chose to work with Teradata (it had already implemented Teradata Warehouse) to co-develop a number crunching workhorse, which would later be commercialized as Teradata Value Analyzer. The new model expanded from assigning customers to three profitability buckets based on average costs to calculating account level profitability. Today, RBC CP&B has customer profitability models covering four of its five business lines. In addition, it developed a segmentation framework composed of strategic and tactical models. Over the years, it has built over 80 proprietary customer models, which score each eligible customer on a monthly basis and identify strategies and tactics to improve customer profitability (discussed further below and in Figure 2 on page 7).

All the sweat and resources expended proved worthwhile for the results of these models were startling. The analytics team found that within personal banking, 101% of its profitability comes from 20% of its customers. Furthermore, it discovered that 75% of its customers shifted two or more profitability deciles under the new behavioral approach, proving--what it had suspected--that its old model based on averages was inaccurate and would not be an effective tool for customer value management. While the customer intelligence gleaned is in and of itself valuable, the greatest return from RBC CP&B's efforts is found in its ability to act on the knowledge and better serve its retail and business customers. It can optimize its use

of resources, whether they be human, infrastructure, or capital, by directing them to strategies and tactics that improve customer experience and customer value.

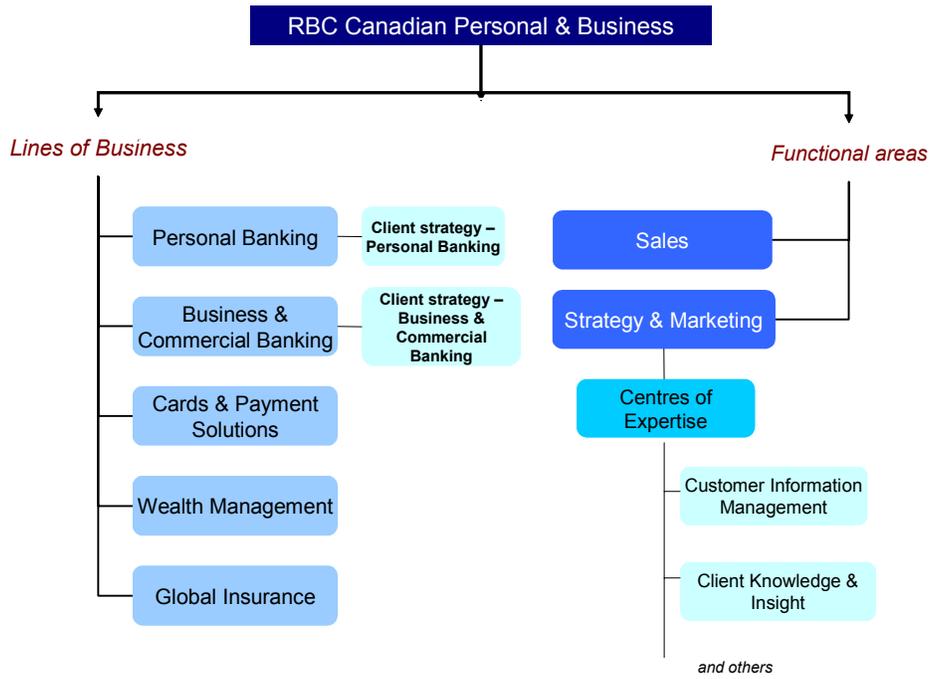
RBC CP&B's quest to excel in customer value management is embedded and disseminated throughout its organization and business processes. Key underpinnings are:

- Senior executive sponsorship
 - In the build stage: have a senior executive champion
 - Ongoing: engage senior executives in expanding the application of the models and approach to include new products and lines of business
- Leverage customer information and decisioning technology to:
 - Segment customers and understand profitability within those segments
 - Develop segment-based strategies and tactics
 - Predict customer preferences and behaviors
 - And ultimately generate a personalized strategy for each customer
 - At the same time, ensuring all customer privacy requirements and regulations are respected
- Build and support an organizational structure that is capable and motivated to act on the customer intelligence, including:
 - Centres of Expertise which are responsible for maintaining and improving the customer models
 - Client strategy functions supporting personal and business banking separately
 - Customer insight translated into a format that the frontline can readily use across all channels (RBC CP&B's Client Relationship Management system, CRM, provides very specific information to customer service representatives; e.g., for customer Smith, offer a specific service package)

RBC CP&B recognized that it could not dissolve its traditional product-oriented organizational structure and replace it with a customer-centric one. Instead, it weaves customer-oriented functions across its organization. Two traditional lines of business (Personal Banking and Business & Commercial Banking) are coupled with Centres of Expertise and Client Strategy teams (Figure 1 on page 5). The Client Knowledge and Insight Centre of Expertise is responsible for the customer models and insight generation. The Client Strategy team head reports to and works closely with the business heads to assure that

strategies and tactics are well developed and executed. The team includes people responsible for specific customer segments and customer-related initiatives.

Figure 1: Sketch of Customer-Focused Organizational Dynamics



Source: Royal Bank of Canada and Celent

The client focus fostered by RBC CP&B's organizational structure results in sophisticated sub-segmentations of clients and exceptionally creative product campaigns. Table 1 outlines two examples.

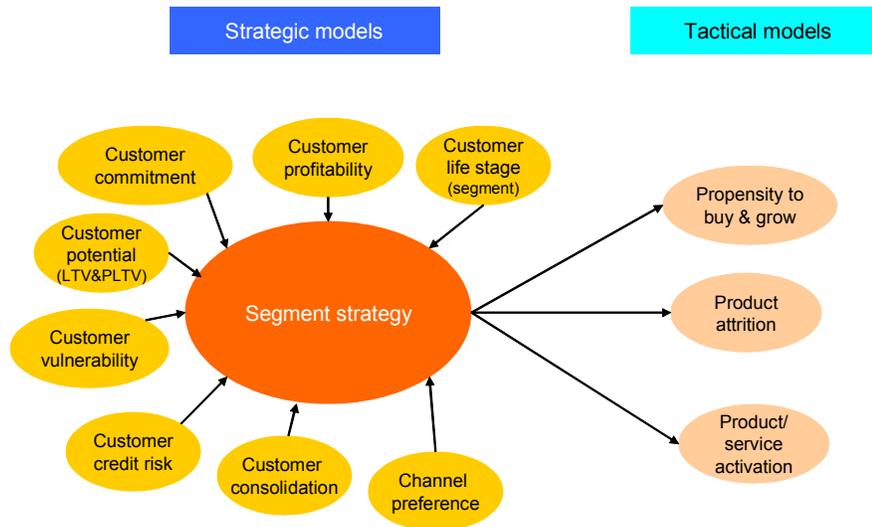
Table 1: RBC Examples

| Example | Overview |
|--|--|
| <p>New service: Courtesy overdraft limit</p> | <ul style="list-style-type: none"> • Goal: build customer loyalty, improve operational efficiency (check processing), and reduce customer calls • Target: Offered to retail customers with a minimum tenure of 90 days, a low credit risk score, and who made a deposit in previous month • Customization: Limit is set at the customer level and is based on the customer's entire relationship with RBC • Results: 75% of items cleared automatically, increased consistency in overdraft decisions, and liberated time for front and back-office staff |
| <p>Product package for sub-segment: Mid-sized manufacturing businesses and their owners</p> | <ul style="list-style-type: none"> • Goal: Build and expand sub-segment profitably • Sub segmentation process: identified the characteristics of high value mid-sized business customers and found that value was correlated with a specific industry: manufacturing* • Strategy: Offer unique industry knowledge to customers at account manager level; have account managers act as quarterbacks for building relationships with other business units at RBC, including retail • Results: during the first year of the program, RBC CP&B added more than one new manufacturing customer per business day |
| <p><i>Source: Royal Bank of Canada and Celent</i> *Manufacturing has a broad set of financial needs and hence offers significant cross-sell opportunity.</p> | |

RBC CP&B has built exceptional customer analytical power by developing over 80 customer models divided into strategic and tactical types (Figure 2 on page 7). Each model identifies strategies and tactics at the customer and segment level, which fulfill service, revenue, and/or cost-savings goals. The results of the models are translated into action items (e.g., lead lists to sell a new product, and customer service call lists to reduce customer attrition), which are disseminated via the CRM. The annual volume of potential customer contacts is extraordinary: 6 million proactive leads (used by sales people for outbound calls) and 43 million reactive leads (used when the customer initiates contact, e.g., uses a teller).

RBC CP&B first segments for life stage, which enables it to identify and hone in on customers' financial needs. The customer profitability, customer potential, and rest of the models then allow it to determine strategies and tactics. Typically customer models are used in combination. For example, some core strategies are built using customer profitability, customer potential, customer credit risk, and customer vulnerability models.

Figure 2: RBC's Constellation of Retail Customer Models



Source: Royal Bank of Canada and Celent

The success of RBC CP&B's retail customer intelligence efforts is seen in the growth in customer profitability. Over the past two years, on average, customer profitability has increased 11% per annum. Its long-run objectives are to continue improving the accuracy of its models and profitability calculations and refining its enterprise-wide view of customers. It is coming close to the pinnacle of customer value management: aligning the value it brings customers with shareholder value by adding models and product groups.

ABOUT CELENT

Celent is a research and advisory firm dedicated to helping financial institutions formulate comprehensive business and technology strategies. Celent publishes reports identifying trends and best practices in financial services technology, and conducts consulting engagements for financial institutions looking to use technology to enhance existing business processes or launch new business strategies. With a team of internationally experienced analysts, Celent is uniquely positioned to offer strategic advice and market insights on a global basis.

Celent's research services cover the following six sectors of financial services: Retail Banking, Wholesale Banking, Retail Securities and Investments, Institutional Securities and Investments, Life/Health Insurance, and Property/Casualty Insurance.

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