

Banking on the Enterprise Data Warehouse to Optimize Customer and Product Profitability

A Teradata Case Study

The Customer

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The ABC Financial Corporation (“ABC Financial”) implicitly understands the challenges of success. As the largest financial services provider in their country, ABC Financial has total assets in the billions. Its customer base includes 2.2 million consumers and nearly 190,000 corporations.

The company offers loans, private and commercial banking services, financial and asset management services, credit and debit cards, and products in the foreign exchange and capital markets. In addition, the group is also the largest life insurance and pension company, with about 900,000 customers. The company employs almost 12,000 full-time workers at sites throughout their country and at offices throughout the world. Internationally, ABC Financial is one of the world’s foremost shipping banks; it is also a major international player in the energy sector.

ABC Financial’s success has been carefully crafted. The company uses best practices, policies, and the latest technology from the financial service industry to develop and maintain the responsive customer relationships that support profitable growth. When the use of automated technologies threatened to diminish its personal contact with customers, ABC Financial deployed Teradata technology. Using customer management and value analysis solutions in concert with its enterprise data warehouse, the company researched and tracked customer preferences, re-established valued relationships, and increased customer use of additional services. Together, these changes dramatically enhanced customer satisfaction and retention. The technology also helped the company increase the profitability of both ABC Financial products and customers.

ABC Financial’s Customer

- > **2.2 million consumers**
- > **188,000 corporate clients**
- > **424,000 housing loan customers**
- > **651,000 mutual fund customers, 331 institutional clients**
- > **918,000 loyalty customers in two programs**
- > **1.14 million customers who use Internet banking (51 million payment transactions in 2005)**
- > **816,000 customers who receive notices, such as account statements, via email**

Committing to Customer Service Excellence

Worldwide, the financial services industry is marked by ongoing merger and acquisition activity – consolidation that helps smaller players achieve new market strength and momentum in a highly competitive market. Yet the change created by these mergers threatens the success of these new organizations.

In January 2004, a large merger of two corporations created ABC Financial. As with many mergers, the going-forward company had many decisions to make about business strategies, policies, best practices, and the technologies to support them. One issue that demanded resolution was the strength of the company's customer relationships.

Each of the companies that formed ABC Financial was driven by a commitment to customer relationship excellence. To support this commitment, both companies had embraced technologies that automated nearly all customer-facing banking services. This automation increased efficiencies, improved customer service, and reduced costs. But it also had the unintended effect of encouraging customers to do their banking from automated teller machines, home, or office, rather than at the bank's branch offices. As a result, the number of customers who visited a local office weekly fell from 50% in 1986 to less than 5% in 2003. ABC Financial became concerned that this loss of contact would compromise its customer relationships.

The company planned an initiative designed to regain its close contact with its customers – strengthening customer service and relationships while generating corporate growth and enhancing profitability. Executives knew that the plan would require both technology solutions and corporate culture changes.

On the technology side, bank executives decided to use the best solutions from each company. One of them, a long-term user of Teradata solutions, offered a robust enterprise data warehouse that had helped the bank fine-tune its customer management operations. "We looked closely and compared every element of each system," explains ABC Financial's customer relationship management (CRM) Director. "But in the end, the decision to stay with Teradata and customer management platform was really pretty easy. We already had proven success and proven ROI, which the other system could not match."

ABC Financial's "Compass:" A Retail Banking Vision

We shall give all customers a good experience each time they are in contact with the bank. The good customer experiences shall be created through our attitudes, our behavior, and our solutions.

Building on a Heritage of CRM Solutions

ABC Financial's CRM decision was based on the successful long-term use of Teradata technology at one of its predecessor companies, XYZ Bank. In 1995, XYZ Bank deployed a marketing database on Teradata. Recognizing the value in this early system, it expanded the system in phases.

In 2000, the bank deployed Teradata Customer Relationship Management (TCRM) to more effectively use customer data to support decision making. The goal was to begin tracking and identifying customer preferences. XYZ Bank began refining its traditional CRM strategies, while adding new techniques designed to communicate more personally with customers without over-contacting them. Over time, this strategy improved customer contact, increased sales opportunities, and enhanced profitability.

As the benefits of this solution emerged, XYZ Bank began to developing a three-step pilot program for an events-based marketing platform. Events-based marketing helps ensure that customers are contacted when and where they prefer, with the type of communication that best suits their needs, about products or services that they truly desire. In addition, the company only contacts these customers based on opportunity or customer need, not by segment or some other criteria convenient to the bank.

The first step was a small pilot that was designed to prove the events-based marketing concept. "The initial pilot was

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ABC Financial

more about technology," says the CRM Director. "We needed to see that it would actually work and would deliver leads that we could use." This pilot was well-received.

With this success, XYZ Bank embarked on step two: the bank deployed a second pilot, which brought the program into better alignment with the company's strategic requirements. The data warehouse was able to capture and retain all available customer information from the core accounting systems. This included relationships in various subsidiaries, transactions for up to four years, selected demographics, the bank's marketing history, and some 40 data elements from customer survey responses. Daily activities could be recorded and loaded into the data warehouse, where a continuous transaction profile was stored for each customer. With this information in place, the system began delivering well-qualified, timely leads directly to the desktops of 3,000 customer-facing employees. Having this information enabled bank employees to contact customers when

appropriate through their preferred channels.

With the technology proven and the strategy deployed, XYZ Bank was ready for the final step: a third pilot that would push the CRM initiative into broader use throughout the enterprise. The third pilot helped fine-tune the alignment of the organization and the customer data warehouse, ensuring that personnel were trained and organizational processes were implemented to maximize the value derived from the CRM platform.

The results were dramatic. "Our early pilot program showed a sales conversion response of about 60%, which was extraordinarily high," says the CRM Director. "What was more exciting is that we tracked customer satisfaction by comparing those who were contacted as part of the events-based program and those contacted for other reasons. Customers contacted through the program reported significantly higher customer satisfaction."

Shifting into Customer Focus

With the completion of the merger, ABC Financial was ready to embrace a new events-based marketing approach to improve relationships with its customers. By September 2004, the data warehouse had been populated with the entire customer base of the merged bank. “The models were not exactly what we wanted, but we had enough information about all the customers in the database that we were able to run the integration activities associated with the merger far more efficiently,” says the CRM Director

To ensure the success of the events-based marketing approach across multiple customer channels at the merged bank, the CRM team decided to use the same process that had proven successful at XYZ Bank. Once launched and aligned with corporate strategy, the events-based technology was pushed out to a wider audience within the bank and firmly aligned with its business strategy.

ABC Financial also made changes to its organizational approach. The bank began to value knowledge about customer needs

and requirements over singular product knowledge. Instead of rating employees on how well they sold products, success was judged based on a combination of sales and the customer’s experience.

This change from a short-term, sales-based perspective to a more balanced longer-term, customer-focused approach was especially visible in terms of how ABC Financial began measuring business success. Previously, sales were assessed by comparing revenues to budget. Seeking a longer-term view of corporate value, the company now uses the data warehouse to track more refined metrics such as the sales conversion percentage and customer retention. Today, with the additional information provided by the Teradata customer management platform, the bank can view both long- and short-term metrics used to gauge the success of the enterprise as well as individual branches and operations.

By supporting the events-based marketing approach with organizational change, ABC Financial has derived measurable benefit.

The program has delivered significant improvements in sales. In addition, the bank has received positive customer reaction on the timeliness and relevance of its contacts. Representatives can now contact customers within 24 hours of receiving notice of a relevant life change; before the new system, it would typically take six to eight weeks to contact the customer.

The bankers who work with customer leads are pleased to be able to service clients more effectively. Says the CRM Director: “The customers say, ‘how nice of you to call me about this right now.’ The bankers are very happy to reach out to our customers this way.”

An enterprise-wide roll-out of the events-based system was planned for mid 2007. “We’ll take our CRM approach to even greater heights,” says the CRM Director. “There are many things that we have wanted to do for years, and now we will be able to pursue them.”

Maximizing Marketing Results

Perhaps the most surprising benefit of the events-based marketing strategy is its impact on ABC Financial's sales and marketing budget. By delivering the most important customers that each banker should contact each day, the system helps customer-facing employees choose the best opportunities and maximize their marketing efforts. "This approach has made us a lot smarter about how we market to customers," says the CRM Director. "As a result, we have trimmed our marketing budget by approximately 50% while continuing to improve both sales response and customer satisfaction."

Looking forward, ABC Financial hopes to move toward active data warehousing. "We want to operate more in real time," she explains. "We need to be able to make decisions more quickly. We want to take the information in the warehouse and deliver it to our staff at the right time. We want to free ourselves from the batch processes. To do that, we need to focus more on the analytical side. We are currently building up our CRM analytic capabilities, and hopefully it will show success soon."

Measuring the Value of Events-Based Customer Management

- > **Sales conversion rate: increased from 5-10% to 40-60%**
- > **Customer satisfaction: increased from 66.7% to 67.8%**
- > **Time to market: increased from six to eight weeks to 24 hours**
- > **Retention save rate: 10%**
- > **Appeared competence rate: increased from 54% to 64.3%**
- > **Payback period: 12 months**
- > **Three-year net present value: \$9 million U.S.**
- > **Three-year internal rate of return: 202%**
- > **Improved operational efficiency (cost savings): \$1.8 to \$3.7 million U.S annually**
- > **Reduction in marketing budget: 50%**
- > **Sales force satisfaction increase: 71.4 to 73 points in one year**

Most importantly, the Teradata solution is helping ABC Financial meet its customer service and satisfaction goals. "Our entire strategy is geared toward delivering the best customer experience every time the customer is in touch with the bank," says the CRM Director. "That strategy is based on three elements: improving the

competence of our own people in building relationships, our events-based loyalty program, and the total commitment to exceptional customer relationships throughout all our retail banks. Our Teradata customer management solution gives us the flexibility to deliver on all three of those elements."

Pinpointing Product Profitability

Gaining these new customer insights has heightened ABC Financial's desire for additional information that may enhance the bank's success. Driven by international banking regulations such as Basel II, the company wanted to better understand product and customer profitability. Executives wanted to know: What value does each product offer, based on its costs and revenues? Which customers and customer segments are most valuable to ABC Financial and why? How could the bank change its business processes or products to make unprofitable customers more valuable? With this information, the organization hoped to understand which products drive profitability, determine the risk-versus-return ratio, and make marketing decisions based on those assessments.

The bank considered developing its own application that would measure these values, but wanted to avoid the unpredictable costs of in-house maintenance. In 2006, ABC Financial deployed Teradata Value Analyzer to better understand product profitability. Teradata Value Analyzer uses the transactions, events, and activities of a business to create a bottoms-up view of organizational and

customer profitability. The company began by applying the solution to loans and deposits only. Over the next several years, it will be rolled out to the other operational areas of retail as well as commercial banking, such as customer profitability and payments.

"Based on the results from Teradata Value Analyzer, we can build systems for our product managers through which they can slice our customer base into segments and determine the level of profitability of products within each segment," says the project manager for profitability systems at ABC Financial. "We can then adjust our offerings or our marketing strategy to try to improve those results, making each product more profitable within each segment."

Because the solution is easy to use, Teradata Value Analyzer is becoming increasingly valuable within ABC Financial. "Each user can manage the rules easily, without relying on help from IT," explains the project manager. "With Teradata Value Analyzer, it is very easy to develop evaluation routines and to change those routines as our products and services change."

While ABC Financial managers are initially using the solution to focus on product profitability, the bank plans to extend the use of the Teradata solution to account managers, who will use it to analyze customer profitability. Each account manager can use the tool to evaluate different components and analyze whether income generated by each customer is sufficient to cover the costs of associated risks. The use of risk elements throughout the organization is required for Basel II compliance.

"We can use Teradata Value Analyzer to determine the profitability of a customer as well as our risk with that customer," says the project manager. "That information will help us understand if we are investing too much on high-profit, high-risk customers when it might be better to invest in lower-profit, lower-risk customers. Our goal is to include enough customer information and evaluation routines to derive a broader, more comprehensive picture of customer profitability. Teradata Value Analyzer will help us deliver that."

Essential Value from Teradata

Teradata.com

To succeed in the international financial services market, companies must be prepared to handle business change – from customers, competitors, or business partners. With frequent mergers and acquisitions driving the industry, banks such as ABC Financial need access to integrated product and customer data that fosters understanding of trends, performance, and futures.

Today, the robust the Teradata solution provides essential value to ABC Financial. The bank uses the data warehouse for

strategic and operational analysis, campaign management, product development, risk management, and credit scoring applications. The solution allows ABC Financial to manage two million customer “segments of one” by running 10 million customer scores nightly, delivering relevant and timely leads, and motivating the workforce. It helps employees determine which customers should be contacted each day, how often and when to contact those customers, and how to contact them for maximum efficiency. The effort is clearly delivering rewards: In a recent survey, 90%

of customers were satisfied with their local branch, 86% expressed overall satisfaction with ABC Financial, and 86% said they would recommend the bank to friends and family.

With its Teradata solution, ABC Financial feels prepared to tackle whatever changes come next. “We fully expect Teradata to play not only a key role in the successful day-to-day operation of our bank, but also in helping us compete and effectively serve our customers for the foreseeable future,” says ABC Financial’s CRM Director.

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