Retail Customer Segmentation in Worldwide Banking
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Methodology

Areas of Search

Our research found appropriate case studies in banks from France, Spain, Britain, Belgium, Canada and the United States.
Primary Sources

- Relevant Profiles:
  - **Industry Experts:** Banking Consultants, Segmentation and Strategic Experts
  - **Bank Employees:** Strategic, Business Development and Management officers
  - Consultants and Research at target countries

- A total of **50~ Primary Sources from Europe and North America** were contacted during our research

- **Personal Meetings** with an Expert from a leading consultancy company and a Senior Manager at HSBC with a rich background in banking
Methodology

Executive Summary

Introduction
Broad Insights and Common Practice Model
Product centric vs. Customer centric views

Segmentation - a growth engine for customer centric banks

- 2000: Banks enjoy a worldwide financial growth through mergers and acquisitions

- Since banks can rely on M&A for growth, their focus shifts from customer centric to product centric

- 2008: Due to the financial crisis, banks are no longer able to sustain growth through M&A and return to a customer centric approach, which brings segmentation back into the radar
Segmentation as an internal growth engine

Segmentation – Definitions and Goals

Definition: To divide the customer base into groups with similar characteristics in order to provide value offers and sales offers which are effective and unique.

Goals:

- Profit/Loss optimization for each segment
- Monitoring of clients to provide them with the most suitable value offer
- Encouragement of clients to grow in order to increase profitability by moving up the segmentation ladder.

Case Study

The 80's brought about a reform in Canadian banking. As part of the reform, bank mergers & acquisitions were constricted and banks started looking for a different growth engine – customers. In order for a customer to support the growth of the bank, profitability is a must, and therefore there is a need for accurate segmentation. At bank A, a leading bank in Canada, the segmentation was meant to maximize the potential profitability of clients. Business processes, monitoring, value offers and marketing serve as support for this goal.
Parameters in segmentation

Segmentation

Primary Parameters
- Assets & Liabilities
- Geo-demographic Data
- Profitability

Secondary Parameters
- Behavioristic Segmentation
- Attitudinal Segmentation
- Life Stage Segmentation
- Life Change Segmentation
Strategic Segmentation vs Marketing Segmentation

Secondary Marketing Segmentation

- Strategic segmentation is constrained due to the inability to allocate managerial focus toward many segments.

- Marketing segmentation is meant to lift this constraint by relying on CRM and business management solutions without requiring the change in business organization.

- The purpose of marketing segmentation is to identify and create sub-segments on top of the strategic segments, which are better suited as sales targets.
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Minimizing the amount of strategic segments toward 3-4 is the current trend.

Service levels are the main difference between strategic segments.

Strategic segmentation’s main parameters are: Assets & Liabilities, Profitability, Life Stage and the Equipment Rate (depth of the relationship, amount of products a customer has).

Marketing segmentation affects VAS and pricing flexibility.

Marketing segmentation uses many parameters and is not constrained by the strategic segmentation.

In order to sustain a clear and simple segmentation, which allows for proper management focus it is crucial to support it with advanced information systems which allow for monitoring and management of client relations.
Common Practice Model

Prevalent banking model
Prevalent trend is minimization of segments

- Defining 3-4 strategic segments allows for proper managerial focus on them
- High specificity when approaching customers is created through advanced information systems

Case Study

2005: Bank B changed its strategic segmentation and decided on 6 segments. The main parameters for segmentation were the assets & liabilities of the customer along with the potential for growth, as identified by a banker in a financial review. With time, the bank saw that there wasn’t enough difference between the 6 segments to justify their existence, therefore, today, in 2011, they plan on uniting the 6 into 3 by grouping them into low, mid and high.
Service levels differentiate between segments

- Relationship managers are a privilege of profitable segments:
  - Low profitability (low level service) – No relationship manager
  - Mid profitability (mid level service) – relationship manager (400-600 clients)
  - High profitability (high level service) – expert relationship manager (150-400 clients)

Strategy

At bank C there are 3 strategic segments. The lower segment, mainly comprised of mass market customers, doesn’t get a relationship manager and is encouraged to use direct channels. This is due to the high price of maintaining a relationship and the relatively low return for the lower segment. The middle segment, comprised of emerging affluent individuals has a dedicated relationship manager plan within branches to help them reach their potential. The highest segment enjoys a relationship along with investment advisors.
Common Practice Model

Service levels differentiate between segments

- Active contact with clients is meant for monitoring their needs and is based on the service levels:
  - Low level – up to 2 times per year
  - Mid level – 3-4 timer per year
  - High level – 6 times a year along with a concierge service, available to customers at all times
- Financial reviews by relationship managers should be conducted in order to identify the clients potential

Strategy

At bank D, relationship managers for the mid and high segments are also in charge of affluent customers. In their portfolio, there are 400 clients and another 200 reserved for the client’s families. Relationship managers also contact clients from the lower segment which have been identified as having financial potential. As part of the contact with clients, relationship managers invite clients for financial advise, which range from investments to inheritance and asset building. Mid level clients receive financial advice at a lower level.
Common Practice Model

Main parameters for strategic segmentation

- Financial potential (profitability) is a key aspect which should indicate to the bank to transfer the customer to an appropriate segment in order to “buy” their loyalty
  - Financial potential – young doctor, young executive
  - Assets and Liabilities
  - Life stage – young, student, marriage, pension
  - Equipment rate – product amount, account activity

Strategy

2011: Bank D starts with a change to their strategic segmentation. The new model is based on 4 parameters, with the leading parameter defining the segments being the client’s worth. The 3 other parameters offer the bank sub-segments which are used to adjust the value offer and service level in order to maximize the ROI of the bank. Another benefit is the ability to find emerging affluent clients, offer them special care and help them maximize their potential, thereby growing future profits of the bank.
Marketing segmentation affects value offers

- Marketing segmentation processes the value offers into sales offers and changes the VAS and pricing flexibility according to the segment
- Pricing flexibility can be affected by a marketing campaign
- Services such as legal consultation or travel discounts are a part of the sales offer and the value offer

**Strategy**

At bank E, after the initial strategic segmentation process, there is a meeting between the marketing, strategy and client management departments, where the marketing segmentation is built. The marketing segmentation includes the value offer and the pricing model which were set at the strategic segmentation and builds sales offers to the marketing segments – such as young people, retirees and international clients. The sales offer includes VAS and pricing flexibility directed at different marketing segments.
Marketing segmentation affects value offers

Geo-demographic Parameters
- Profession
- Marital Status
- Age
- Region

Personal Preferences
- Access Channel
- Product/Channel Preference
- Response to Marketing
- Preferred Payment Method

Financial Parameters
- Assets
- Credit Rating
- Liabilities
- Assets at other banks
- Financial Review
- Financial Potential
- Equipment Rate
- Business Owner

Behavioristic
- Profile: Entrepreneur
  Age: 22-42
  Tendencies: Financial complexity

Attitude
- Profile: Donors
  Tendencies: Like to give donations

Generational
- Profile: Young family
  Age: 25-42
  Tendencies: Looking for a mortgage

Life Stage
- Profile: Student
  Age: 18-32
  Tendencies: Simple transactions

Marketing Segmentation
- Premium
- Retired
- General
- Young
- Students
Common Practice Model

Simple segmentation supported by CRM & BI

- Implementation of the segmentation is largely carried out by information systems
- Monitoring and identification of changes in the customer base offer a valuable view into the success of segmentation
- Clients growing from segment to segment are monitored and changes to the marketing segmentation, sales and value offers and service levels help leverage this growth

Strategy

Bank A operates information systems to target the moments in which a client is making a financial decision, a “life change”. For instance, a client uses the bank’s mortgage calculator, the system will notice, and the client will be contacted. In the contact, more data will be collected, and the system will set the client as being in financial decision making time. 

After identification, the bank will work to supply the customer with a high level of service so that the client chooses to make his decision with the bank. The rational is that it costs much more to obtain a new client than to keep an old one.
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