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<td>CIT</td>
<td>Cash in Transit</td>
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<td>FTE</td>
<td>Full time employees</td>
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<td>FX</td>
<td>Foreign Exchange</td>
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<td>HR</td>
<td>Human Resources</td>
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<tr>
<td>IBCM</td>
<td>Information Based Customer Management</td>
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<tr>
<td>LG</td>
<td>Loan Guarantee</td>
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<tr>
<td>MIS</td>
<td>Management Information System</td>
</tr>
<tr>
<td>NGO</td>
<td>Nongovernmental Organization</td>
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<td>NPL</td>
<td>Non-performing loans</td>
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<td>NPS</td>
<td>Net Promoter Score</td>
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<td>NPV</td>
<td>Net Present Value</td>
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<td>NSI</td>
<td>Net Satisfaction Index</td>
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<td>OD ACC</td>
<td>Overdraft Account</td>
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<tr>
<td>POS</td>
<td>Point of Sale</td>
</tr>
<tr>
<td>RM</td>
<td>Relationship Manager</td>
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<tr>
<td>ROE</td>
<td>Return on Equity</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<td>SMS</td>
<td>Short Message Service</td>
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<tr>
<td>TEB</td>
<td>Türk Ekonomi Bankasi</td>
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Acknowledgements

The IFC’s Global SME Banking Program would like to acknowledge the Oesterreichische Entwicklungsbank AG (OeEB), the Austrian Development Bank, for their contribution and partnership.

IFC prepared this Best in Class Guide for Customer Management in SME Banking under the supervision of a team led by Ghada Teima and with the technical expertise of Andrew Charles McCartney and project management of Martin Hommes. The team would like to acknowledge the contributions of the IFC peer reviewers: Ignacio Estevez, Neil Ramsden, and overall guidance of Panayotis Varangis. We are also grateful to all the banks that shared their experiences in the Guide. We would particularly like to thank Roland Berger Strategy Consultants’ team led by Christian Wessels and Luca Zuccoli, with the support of Jochen Frowein, Maximilian Meran, and Luca Turba, commissioned by IFC to produce this Guide.
Foreword

Fostering a dynamic small and medium enterprise (SME) sector is an economic development priority in both developed and emerging economies. SMEs are a primary driver for job creation and GDP growth. They greatly contribute to economic diversification and social stability, and they play an important role in private sector development. SME development also represents a major and difficult challenge. SMEs typically face more severe constraints to growth than do large companies, their lack of critical size resulting in reduced access to markets, skills, and capital.

Lack of access to financing is consistently cited by SMEs as one of the main barriers to growth. Often considered by commercial banks and financial institutions as risky and costly to serve, SMEs are largely underserved when it comes to basic financial services. With such limited access to financing, SME owners struggle to make the investments they need to increase productivity and competitiveness, develop new markets, and hire more people.

For more than 50 years, IFC has helped expand access to finance for sustainable private enterprises in developing economies. Leveraging this track record and learning from the experience of banks successful at serving SMEs, IFC has been working with commercial banks to recognize and seize the untapped and profitable opportunity that the SME segment represents. With IFC and others’ help, these banks are learning how to better understand and cater to SME financial needs, how to better manage SME risk, and how to process smaller transactions at lower cost and with better service quality.

We are proud of our leadership in the SME finance arena. As of June 2011, IFC was collaborating with 315 financial institutions across 92 countries globally and had committed a total of $11 billion to SME finance worldwide, of which $9.6 billion was for long-term finance (including $1.2 billion for funds supporting SMEs), and $1.4 billion for trade finance. About half of these institutions also received advisory services from IFC. In addition, IFC’s SME financial institution clients had over 1.5 million loans outstanding to SMEs by end of 2010, totaling $123.8 billion globally.

IFC previously published an SME Banking Knowledge Guide that synthesized IFC’s lessons learned in SME Banking. We wanted to complement this publication with a best practice guide in Customer Management in SME Banking, which aims to share what we believe are key success factors in better serving the SME clients and allowing banks to maximize the revenue opportunity when servicing this sector. It is primarily a technical publication, intended for bank directors, managers, and staff in developing economies, who are already active in providing financial services to the SME segment but have not acquired the full set of capabilities in customer management. These capabilities are a key to
enhancing growth and revenue, as well as building and retaining profitable customer relationships amidst ever-increasing competition for the SME segment. The Guide is also a useful tool for policymakers and other financial sector actors who seek to better understand the essentials to further close the gap in the provision of banking services for the SME sector. We hope that this Guide will provide a useful reference to the many financial institutions willing to engage more actively with small and medium enterprises around the world.

Peer Stein
*Global Business Line Leader, Access to Finance*
The objective of the Customer Management in SME Banking Guide is to share and disseminate critical information for managing the SME client relationship, allowing banks that already serve the SME sector to move beyond lending to better capture the SME Banking opportunity. Customer management is a broad concept that essentially covers: (1) understanding customer needs; (2) matching customer needs to the best offers in terms of price, product, service level, and delivery channel; and (3) effectively managing the critical moments during the customer life cycle.

IFC’s experience shows that most of the banks in emerging markets servicing the SME segment are not fully capturing the SME opportunity due in part to lack of the necessary capabilities to manage the SME customer. Better customer management has been shown to directly affect the profitability of banking institutions. This might involve improving segmentation and acquisition, actively cross-selling and up-selling, identifying and retaining SME clients, or improving collection practices. Financial services providers, who may find this Guide particularly helpful in expanding their SME operations and better tailoring their products and services, include commercial banks and other interested institutions in the SME financial services space. Other organizations interested in SME access to finance issues, such as research institutions, government agencies, and nongovernmental organizations (NGOs), may also benefit from the content of this publication.

The Best in Class Guide for Customer Management in SME Banking draws widely from various bank-specific experiences, existing research and literature, and interviews with SME banking experts. It is not designed to be prescriptive and does not advocate for a single approach to customer management in SME banking. Rather, the Guide seeks to support financial services providers in making informed choices by sharing the challenges, opportunities, and effective practices in customer management for SME banking from across the globe.

This Guide leverages IFC’s SME Banking CHECK Diagnostic framework used to assess SME banking operations, as well as its SME Banking Benchmarking exercise used to analyze good practice business models. In addition, the Guide provides practical examples of customer management focused on SME banking from a number of featured financial institutions. Such examples may serve to highlight a good practice, or may simply serve to illustrate a learning experience. Financial institutions featured in this publication include Bankinter, DBS Bank, Diamond Bank, Garanti Bank, ICICI Bank, Banco Santander, and Türk Ekonomi Bankası (TEB). Additional SME banking experiences are drawn from a variety of other banks and are cited throughout the text as appropriate.
IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, providing advisory services to businesses and governments, and mobilizing capital in the international financial markets. In fiscal 2011, amid economic uncertainty across the globe, we helped our clients create jobs, strengthen environmental performance, and contribute to their local communities—all while driving our investments to an all-time high of nearly $19 billion. For more information, visit www.ifc.org
Executive Summary

Small and medium enterprises (SMEs) constitute a significant and growing opportunity for commercial banks, but the diversity of their needs and requirements makes them a difficult target. Profitably serving the SME segment requires a tailored customer management approach enabling banks to answer four key questions:

- How can banks better understand SME customer needs?
- How can they match diverse needs with the right offer, service level, and delivery channel?
- How can customer management be used to maximize the revenue opportunity when servicing this market segment?
- How can banks effectively manage SME customers across their life-cycle?

These are the types of questions explored in the Customer Management in SME Banking Guide. The Guide provides a framework to understanding SME customer management and an overview of its benefits and principal challenges. The Guide breaks down the approach that best practice banks are using to unlock SME potential with respect to different moments in the customer management life cycle, and it concludes by presenting the requirements for a successful implementation.

Introduction to Customer Management in SME Banking

SMEs, more than any other banking segment, vary by size, sector, financial sophistication, and business maturity. As a consequence, a best-in-class customer management approach is critical to profitable growth. This entails an in-depth understanding of customer needs and the ability to apply these insights to shape offers and services to different segments and to different critical moments of a client life-cycle. For instance, through intimate knowledge of their customers, banks can optimize their risk and pricing decisions, cross-sell more products, develop sophisticated collection strategies, and identify customers for retention measures.

Customer management is a value-increasing strategy for both sides of a banking relationship. Through customer management, banks establish a deeper relationship with their clients and are able to serve them better. For banks, improvement initiatives related to customer management can lead to greater profitability and significant enhancements in return of equity (ROE). For instance, leading banks in this field are reporting ROE of 23 percent while laggard banks tend to have negative or suboptimal performance rates.

SME Customer Management along the Customer Life-Cycle

A customer management approach begins with understanding the best segments to target and with organizing banking services and activities around a single point of customer ownership. Good segmentations must leverage external information (i.e., surveys, focus groups) and internal data (i.e., transactions, products, profitability) in order for banks to clearly understand the economics of each segment and have a thorough 360° customer view.
The next step in the customer life-cycle is to target and acquire new SME clients by prioritizing and proactively contacting them through systematic acquisition campaigns. Segment information provides the basis for customizing product and service offerings and increasing penetration. After a new client is acquired, a well-established onboarding process ensures that the customer is introduced and fully integrated into the franchise. It also presents good opportunities to educate the customer with the full spectrum of banking products and services being offered, as well as an opportunity to cross sell these products.

Leading banks report that, on average, a client is profitable only when he or she buys three or more products. Increasing cross-sell and up-sell through specialized processes, bundles that optimize pricing strategies, as well as event-driven marketing and referral campaigns are all key drivers for success. Especially in emerging markets, offering non-financial advice to customers has proven to be a winning strategy to deepen relationships. The experience of banks such as TEB Bank in Turkey and Access Bank in Nigeria demonstrates this innovative approach in SME banking.

Banks are increasingly focusing on applying advanced marketing techniques to all the stages of the customer life-cycle. Activation, renewal, dormancy, and retention processes are integrated within a broader event driven marketing process that generates automated actions when a client is in a specific situation. The goal of these actions is to maintain a high level of activity and to proactively contact clients who might leave a bank.

Lastly, customer management extends to the monitoring of credit and the recovery of non-performing loans. Developing the capacity to predict credit deterioration through effective early warning indicators is only a first step. In addition, best practice banks are studying diversified strategies to minimize their losses once the client is in default. Financial models, for example, allow banks to decide when to support a client with an improved repayment schedule or even with a specific industrial restructuring plan. In some cases, banks go as far as proposing mergers among clients and have specialized groups in charge of these complex activities.

Implementation of SME Customer Management

Customer management approaches are implemented by deploying tools to identify the best clients, developing pricing tools, and improving sales force and service effectiveness. In order to develop high performing applications, it is critical to implement a 360° customer view. This calls for a dedicated SME database to collect data from many different sources, and for a small dedicated unit to maintain it.

After collecting a large and diverse set of data, SME customer data is modeled to predict and anticipate customer behaviors. For instance, credit scores are used to predict defaults and customer management scores are used to predict propensity to buy or to leave a bank, while value models estimate the expected value of a customer and preference models support detailed product design.

Using these models, a host of tools can be developed to support sales and service effectiveness. For marketing, these include campaign management suites to optimize marketing spending and product design, and to track results. For sales and relationship managers, “next best product” models provide optimal product and price suggestions, whilst calendar management applications assign client leads and track actions and results for each client.

Best practice banks organize these activities through a dedicated SME customer management group that conducts analysis, builds tools, and serves as an effective advocate of the needs of SME clients within the bank.

In terms of skills and resource requirements, effective implementation of customer management means selecting employees that have a strong motivation to serve SMEs, training them, and rewarding their performance, with emphasis on building long-term relationships. The experience of individual
banks such as DBS Bank and Santander Bank are good examples in this area, those banks having developed strong relationship managers with the appropriate incentives systems to become partners in the SME business community.

**How to Begin Identifying Deficiencies and Improving the SME Customer Management**

Before putting these lessons to use, banks need to understand their current customer management capabilities across the key areas in SME Customer Management, identify the most urgent opportunities for improvements, and learn how this can enhance their future growth and revenue potential.

**The first step can be to use an SME customer management diagnostic to highlight a bank’s strengths and weaknesses.** IFC’s SME Customer Management Maturity Assessment Matrix is a diagnostic tool built upon the key strategic areas of SME Customer Management. The Matrix allows a bank to plot itself against customer management best practices within the matrix, and understand what critical factors can be implemented to move the bank to the next maturity assessment level.

**Next, banks need to assess the potential upside in the SME space.** IFC has developed a set of models to estimate the potential revenue upside by implementing a critical set of Customer Management components identified through the Maturity Matrix. In addition, the models allow a bank to deconstruct their current performance drivers using a Sales Dupont Tool, and assess the potential financial wallet for a sample of SME clients, identifying the gaps and potential opportunities depending on the SME segment and industry.

In summary, serving SMEs has proven to be profitable and rewarding for individual banks. However, in order to maximize the revenue potential, banks need to acquire critical capabilities in SME customer management to fully seize the opportunity in serving the SME segment. By sharing global best practices in customer management, illustrated with practical examples of banks that have actively and successfully capitalized on the SME banking opportunity, the SME Customer Management Guide hopes to continue to support banks in building stronger and sounder services for small and medium enterprises worldwide.
1. Introduction to Customer Management in SME Banking

1.1. Definition of SME

Small and medium-sized enterprises (SMEs) represent an extremely diverse group of companies, ranging from small owner-managed enterprises to medium-sized enterprises that employ managers. SMEs operate in a wide variety of sectors across rural and urban settings and are typically unable to fund themselves by accessing the capital market. Broadly speaking, their financial requirements are too large for microfinance, yet too small to be effectively served by corporate banking models.

Organizationally, the average SME is more complex than a micro-enterprise, which generally involves only a self-employed person who occasionally may be assisted by a few family members. On the other hand, SME structures are less complicated than the layers of management and departmental specialization found in large corporations.

Whilst many different definitions exist for an SME, a common one is based on the official World Bank classification. According to this classification, SMEs are those companies that fulfill at least two out of three maximum requirements for employees, assets, or annual sales (Figure 1).

### FIGURE 1 DEFINITION OF MICRO, SMALL, AND MEDIUM ENTERPRISES

<table>
<thead>
<tr>
<th>Firm size</th>
<th>Employees</th>
<th>Assets</th>
<th>Annual sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>&lt;10</td>
<td>USD &lt;100,000</td>
<td>USD &lt;100,000</td>
</tr>
<tr>
<td>Small</td>
<td>&lt;50</td>
<td>USD &lt; 3 m</td>
<td>USD &lt; 3 m</td>
</tr>
<tr>
<td>Medium</td>
<td>&lt;300</td>
<td>USD &lt; 15 m</td>
<td>USD &lt; 15 m</td>
</tr>
</tbody>
</table>

World Bank definitions of SMEs

2. Roland Berger survey, 2010

DIVERSITY IN SME MARKET NEEDS

The needs of SMEs differ considerably depending on a combination of diverse factors such as their size, sector, financial sophistication, and business maturity. Since size can range from a handful of employees to several hundred, their resultant needs vary dramatically. As a rule, smaller companies not only require smaller credit lines but also have much simpler needs, as their business operations are typically less complex. For small SMEs, the costs of management and of purchasing complex financial products often outweigh their benefits.

For instance, only larger SMEs tend to use foreign exchange (FX) products to hedge currency risk or trade finance. Figure 2 illustrates the percentage of banking revenues from complex products (such as trade finance) by company size in India. On average, larger SMEs make seven times more use of complex products than do smaller SMEs.

Product needs and usage also differ significantly by the sector in which the SME operates. Figure 3 shows financial product usage among companies operating in different sectors of an economy.

Financing products are used most often in more capital-intensive manufacturing industries, while transaction products are more heavily in demand in the retail/trade
acceptable price in advance. For smaller, less sophisticated businesses, the most commonly demanded products are current accounts, credit cards, and other payment products. On average, SMEs use a mix of payments, credit, savings and, occasionally, leasing products that is not always optimal.

SMEs also have markedly different risk and return characteristics. Larger and more mature SME businesses are typically low-risk clients that can get credit easily and ask for better terms. Conversely, smaller, potentially riskier SMEs can deliver higher margins, but tend to require different capabilities, such as a greater appetite for risk on the part of the few banks that are willing to serve them.

### 1.2. Customer Management in SME Banking: Definition

Customer management is a broad concept that best-in-class companies have adopted in recent years to better serve their clients and achieve superior financial results. Customer management is the ability of a bank to:

- **Understand customer needs.** To fully exploit the opportunities inherent in their customer base, banks gather information from all possible data sources. For instance they run surveys of customer needs, collect their transaction and risk data, and build a 360° view of their clients.
■ **Match customer needs to the best offers in terms of price, product, service level, and delivery channel.**
Based on the insights provided by customer data, banks can segment their clients and serve them differently. For example, high-value clients can be given better service by specialized relationship managers (RMs) as well as potentially more attractive rates. Lower-value clients, on the other hand, can be identified and served through more cost-effective methods such as the Internet or telephone banking.

■ **Effectively manage critical moments during the customer life-cycle.** Best-practice banks want to keep their customer satisfied in order to gain more of their business, obtain referrals, and establish a solid, long-lasting relationship. For example, this means solving their problems in a timely manner, launching retention programs to keep potential defectors, and contacting customers with marketing offers when appropriate.

### 1.3. Benefits of Customer Management

Customer Management is a value-increasing strategy for both sides of a banking relationship. Through Customer Management, banks establish a deeper relationship with their clients and are able to serve them better. For instance, banks can optimize their risk and pricing decisions and develop sophisticated collection strategies. Through the intimate knowledge of the customer, a relationship manager can also cross-sell more products and identify customer retention measures early. By engaging in a constant dialogue the bank can offer adequate finance within shorter time frames and at better prices.

For banks, good customer management leads to greater profitability. For clients, it leads to greater satisfaction and helps to ensure sustainable growth. Figure 4 represents the return on equity ROE for SME banking across a sample of EU and U.S. banks. The banks were ranked with respect to ROE and split into five equal groups; the median ROE for each group is shown. Leading banks in Group 1 implement advanced customer management approaches. Banks in Groups 4 and 5 are laggards in customer management strategies. The graph shows a clear relationship between customer management and the ROE of different performance groups.

Improvement initiatives related to customer management can deliver significant enhancements in ROE. Figure 5 illustrates the results from a study performed to compare the results of a bank that is classified as best-in-class with those of a standard performer. The impact on ROE by a set of customer management-related improvement initiatives was found to be very significant when simulated. Sixty percent of the gap was attributable to customer management performance, particularly in acquisition, pricing, cross-selling, retention, and collection processes.

![Figure 4: Significant Performance Spread by Quintile in SME Banking (ROE)](source)

*LEADING WORST-IN-CLASS*  

**Performance spread by quintile in SME banking**

(Source: Roland Berger Strategy Consultants research, 2011)
Garanti Bank — A Leading SME Bank in Turkey

Garanti Bank is the second largest private bank in Turkey, with assets totaling USD 77 billion. Established in 1946, the Bank sees itself as a development-oriented bank and has always focused on SMEs due to their important role in Turkey’s economic growth.

Garanti Bank’s SME loan portfolio has grown steadily throughout the period 2007-2011. Today, the Bank has 1.4 million SMEs with a total loan portfolio of USD 5.8 billion (Figure 6) and representing approximately 10 percent of the Turkish SME loan market. The majority of SMEs in Turkey have an annual turnover of less than USD 500,000. The financing requirements of these small companies do not justify the kind of tailor-made product solutions that banks usually offer to large corporations. For this reason, Garanti Bank has adopted a heavily sub-segmentation-based approach towards providing banking products and services to SMEs.

The Bank developed almost 20 specific product bundles to better serve its customers. Industrial sectors were used primarily to sub-segment the customer base, although gender was also used to a degree. These sectors included manufacturing, agriculture, the service sector, exporting

FIGURE 5 IMPACT OF DIFFERENT IMPROVEMENT INITIATIVES ON ROE

Difference between standard and leading performance (ROE)

(Source: Roland Berger Strategy Consultants research, 2011)

Garanti Bank’s SME loan portfolio

(Source: Garanti Bank Financials)

FIGURE 6 GROWTH IN GARANTI BANK’S SME LOAN PORTFOLIO (USD BILLION)

(Source: Roland Berger Strategy Consultants research, 2011)
companies, female entrepreneurs, and companies seeking to receive EU funding.

Sub-segments were selected based upon their attractiveness in terms of the size of their profitability potential and risk-return characteristics. Subsequently, the Bank conducted in-depth market research to identify the individual needs of each sub-segment. This informed the development of a sub-segment “proposition” comprising product bundles.

The Bank then developed bundles by combining and customizing its different products, including loan products and a set of complementary services.

Figure 7 outlines the structure of five go-to-market product bundles offered by Garanti.

A discussion of two of Garanti’s most successful initiatives follows, in order to demonstrate how the Bank specifically tailored its customer management approach for the sub-segments.

Garanti developed a specific proposition for women entrepreneurs based on two main concepts: The first is a specific Women Entrepreneur Support Package that has allowed 9,500 women to receive loans (see above). The second is centered on Women Entrepreneur Meetings, at which the Bank has reached more than 3,000 customers.

**FIGURE 7** EXAMPLE OF FIVE PRODUCT BUNDLES TARGETED TO SMES

### SME product bundles

<table>
<thead>
<tr>
<th>Segment</th>
<th>Proposition</th>
<th>Loans</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>WOMEN</td>
<td>Improve company’s production capacity or improve its service</td>
<td>Women entrepreneur loan</td>
<td>Checking acc, OD ACC, POS, credit card, LG’s, foreign trade services, SME pension plan, insurance factoring</td>
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<td></td>
<td>Brand new package for women</td>
<td>Business premises loan</td>
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<td></td>
<td></td>
<td>Auto loan</td>
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<td></td>
<td></td>
<td>Cash loan</td>
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<td></td>
<td>SME project finance loan</td>
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<td></td>
<td>Flexible cashflow and FX support for agencies, suppliers, cafés, and restaurants</td>
<td>Tourism support loan</td>
<td>Checking acc, OD ACC, POS, credit card, LG’s</td>
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<td></td>
<td></td>
<td>Business premises loan</td>
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<td></td>
<td></td>
<td>Commercial vehicle loan</td>
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<td></td>
<td></td>
<td>Fuel management system</td>
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<tr>
<td>TOURISM</td>
<td>Support for those that want to grow and expand abroad</td>
<td>Machinery loan</td>
<td>Checking acc, OD ACC, POS, credit card, LG’s, foreign trade services, SME pension plan, export insurance</td>
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<td></td>
<td></td>
<td>Cash loans</td>
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<td>Expo participation loan</td>
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<td>Certificate acquisition loan</td>
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<td></td>
<td>Business premises loan</td>
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<td></td>
<td></td>
<td>SME support loan</td>
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<tr>
<td>MANUFACTURING</td>
<td>Investment and production financing on terms that suit the harvest period</td>
<td>Tractor and harvester loan</td>
<td>Ekin card, agriculture insurance, SME pension for farmers</td>
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<td></td>
<td></td>
<td>ST production loan</td>
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<td>M and LT support loan</td>
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<td>Warehouse receipt loan</td>
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<tr>
<td>AGRICULTURE</td>
<td>Use loans at discounted rates</td>
<td>Tradesmen support loan</td>
<td>Checking acc, SME insurance, tax collection</td>
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<td>Meet client’s financing needs as well as collections and payments</td>
<td>Loan via POS</td>
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<td>Commercial vehicle loan</td>
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(Source: Garanti Bankası website)
women, creating a common platform for exchanging information, opinions, and experience in topics such as management, marketing, and technology. Garanti has thus become the focal point of a thriving community providing real-time information on the main trends and needs of women entrepreneurs. By the same token, the bank also strengthened its reputation as “women friendly” and gained a loyal customer base.

A second example relates to Garanti’s highly successful “Tourism support package.” This specific bundle of products is targeted to all the companies that serve the tourism sector, including hotels, travel agencies, cafes, bars, and restaurants. Garanti offers investment and working credit facilities with special terms that address the business circumstances of specific sub-segments. Moreover, merchants are provided with Point of Sale (POS) terminals capable of handling transactions in foreign currency. These terminals are connected to a secure international money transfer network. Garanti also offers business owners instant loans via POS terminals. Loan applications can be submitted directly through the POS. If approved, the loans are available immediately without the need for a guarantor or additional collateral. The main innovation of the product package is its ability to combine highly convenient product features with access to services and innovative hardware.

Another success factor of Garanti is its customer knowledge and its ability to focus on high value relationships. The bank analyzes and prioritizes customers according to their potential added economic value. For instance, when a customer enters an SME branch, the sales force has real-time information on his or her value and will provide more personalized and swift service if the individual is a high-value client. As Garanti Bank offers a number of additional contact points to its clients, including call center, mobile, and online banking, low-value customers are incentivized to use these channels for a faster and more cost-efficient delivery of the services they require.

Garanti Bank has achieved a market share on SMEs that is three times higher than in its other segments, and is recognized as the leading SME bank in Turkey.8

FIGURE 8 LESSONS LEARNED FROM GARANTI BANK

- **Targeting customer segments** — Identify customer segments and tailor offers with the most suitable products applying a value approach
- **Master product and service innovation** — Continuously innovate with new products, services, and technologies to better serve SMEs
- **Establish partnerships with key stakeholders** — Cooperate with industry associations and chambers of commerce to promote sectors and gather information on trends and SME needs

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8 Garanti Bank has been recognized as the “Best Bank in Turkey” and “Best managed company in Central and Eastern Europe” by the Euromoney awards for excellence in 2011.
2. SME Customer Management along the Customer Life Cycle

Best practice banks apply a customer management approach throughout the different phases of a customer life cycle to ensure they maximize client profitability. Initially, this requires determining which clients to target, and then tailoring the products to the different segments. Next, the bank focuses on acquiring the most promising clients with effective marketing campaigns and, later, cross-selling products to deepen the relationships. It is important to note that client satisfaction is the result of an ongoing process. To ensure high levels of client satisfaction, the bank needs to be prepared to address problems on a timely basis. Finally, if there is a borrowing relationship, the bank needs to minimize losses when a client’s credit health deteriorates; this calls for effective monitoring and collection. Figure 9 shows the five critical phases during the life cycle of a banking client. These will be explained in the following sections.

2.1. Improving Customer Segment Strategies

As previously discussed, the SME market is typically heterogeneous, with SMEs having markedly different risk and return characteristics. To effectively build-up an SME portfolio, banks must have a clear view of who they wish to target in the market and how to address the needs of different groups within the target market in order to develop customized and appealing offers.

A clearly characterized target market allows banks to focus on serving a well-defined group of SMEs. Best practice banks distinguish themselves by choosing clients in alignment with their internal capabilities. For instance, banks can serve high-risk clients only if they have very strong risk monitoring, collection, and underwriting capabilities.

Once the SME target has been defined, the bank should identify further client sub-segments and serve those sub-segments with tailored offers. Three key elements set apart the best players:

- Clear customer segmentation definition and approaches;
- Ability to understand segment economics and identify the best customers; and
- Clear, single point of customer ownership.
2.1.1. SEGMENTATION DEFINITION

Clear customer segmentation approaches have the following features:

■ The criteria on which the segmentation is based are actionable, in that they can be used to define attractive and well-differentiated offerings.

■ Classification is easy with currently available data — a client segment membership can be identified with the data available in the bank’s system. For instance, running a complex survey and obtaining segments that cannot be identified in the day-to-day banking operations would not be useful.

■ The approaches use multiple dimensions simultaneously with segments of similar size.

■ The segmentation criteria highlight strong value elements, identifying clusters of both very valuable clients and low-value ones (possibly due to different product usage) so that the high-value clients are given priority.

■ The bank uses the segments extensively across its operations, not only for reporting purposes but also to develop specific segment offerings and to differentiate services, service levels, and communications.

■ The segmentation has a foundation based on statistical methods such as clustering, using information from surveys and focus groups. The surveys are large-scale (typically with more than 500 respondents) and their results, due to the high number of responses, can be used to reliably quantify economic opportunities. For instance, a survey can support estimating the number of SMEs, their total turnover, and the economic potential (for the bank) of a segment.

Best-in-class banks most often adopt the following segmentation approaches:

■ Sectoral or clustering elements;

■ A product usage basis;

■ Multivariate segmentation; and

■ Gender niches.

Customers in each segment should have similar demand patterns (e.g., agricultural finance customers). Niche segments may also be recognized individually. For instance, some institutions currently assign more importance to female entrepreneurs and specific ethnic groups.

Clustering

Clustering in this context describes the practice of banks to target regional industrial SME clusters. Clusters are regions in which SME businesses are heavily interconnected and focus on a significant part of the value chain of one specific industry. This implies a broad range of possibilities such as financing the supply chain of a company, proposing technological solutions to facilitate payments, and going as far as developing B2B (Business to Business) platforms for a cluster.

The Indian bank ICICI is an example of industrial cluster-based client segmentation. By effectively dividing its customers according to industry and business linkages, ICICI is able to customize its service approach towards specific cluster needs. In the IT sector for instance, ICICI is known to take equity stakes in start-ups, while to support exporters, it finances pre-shipment orders with no collateral.

Within this segmentation strategy ICICI recognizes a wide range of client needs and offers more than strictly financial solutions. ICICI Bank developed a “beyond-lending” approach to serving SMEs. By offering SME clients within specific industrial clusters a wide range of services such as checking accounts, transaction, banking services, cash management services, trade services, ICICI Bank has been able to increase its total SME client base to nearly 1 million enterprises, only 5 percent of which are lending clients.

Product usage basis

Product usage segmentation relies on grouping clients according to the product mix they use. Figure 10 provides a typical example of product usage segmentation, in which the bank customers are grouped into different segments primarily according to their product usage (e.g., large depositors, large credits) and whether or not the bank is their “main bank.” Fees and commissions can also be tiered with respect to the amount of business the client has with the bank, adding an implicit value
The bank can use different commercial approaches according to customer segment and value. For instance, the bank can try to increase the profitability for negative value clients, regardless of their segment, while for clients with positive value, the strategy is to pursue differentiated cross-selling opportunities.

**Multivariate segmentation**

Multivariate segmentation typically combines the following set of criteria:

- Client value, defined as the estimate of the potential revenue from the client;
- Financial sophistication, defined as the level of knowledge and management experience with financial products;
- Product usage, defined as the financial products the company is currently using;
- Needs, based on the five most important financial needs of the company from an exhaustive list presented to the respondents;
- Sector, the industry sector in which the SME client operates; and
- Size, company turnover, or number of employees.

To illustrate how the segmentation works in a real example, Figure 11 explains the segment “Advanced SMEs.” This cluster includes SMEs whose median size is USD 10 million in sales and who lack the resources to have a structured treasury function, but whose management is knowledgeable about finance and wants to use hedging products. The managers also would like to have advisory services, defined as advice and consulting services through business mentors.

The segment profile provides information on how to design customized products and services. It also offers information about the most effective contact channels, such as specialized websites on the Internet, industry associations, and industry/specialist publications.
Serving this segment will require a small number of advisors. The survey provides the means to quantify whether the segment is sufficiently large and valuable to justify a dedicated group to serve it.

On the one hand, this segmentation can be very useful in designing new communication campaigns; on the other hand, the problem with rich segmentations is in the identification of client-segments for front-end staff. Best practice banks solve this problem with a combination of technology and training.

For instance, a rich client database could include client value, product usage, and company information. These criteria are sufficient to provide a fairly accurate segment assignment through a sales management tool. The tool also suggests additional questions to further improve segment assignment and proposes the client the best next offer. To use these tools, the staff needs to be trained. As a consequence, some banks could initiate a more basic segmentation for the front end.

**Gender niche**

In the service sectors of emerging countries, as well as in some manufacturing sectors such as in textiles, a high percentage of SMEs are owned by women. These women might operate under certain cultural constraints, (such as being forbidden to drive a car in some countries) that make them a particularly good target for a custom-tailored offer. As an example, in countries where women are only allowed to interact with other women, banks can offer services through special branches or women agents, or through processes specifically designed to facilitate remote interactions. When their specific needs are addressed, women entrepreneurs constitute a very distinct segment with great potential.

### 2.1.2. Understanding segment economics and identifying best customers

Understanding segment economics and identifying the best customers is the second pillar of effective segmentation. Best-in-class banks use the following processes:

- They estimate both current and potential value of the segments. The current value is calculated using existing product holdings. Potential value is estimated defining a target product portfolio based on the analysis of needs at the segment level.
- They allocate operating costs to each segment with a clear understanding of the costs generated by each
product and service. This requires banks to have a clear activity-based costing framework in place, enabling them to estimate the different costs to provide different levels of service. This knowledge is the foundation of effective service models, thereby allowing clients to receive maximum satisfaction while the bank achieves the maximum profitability for each product offered.

They allocate the costs of risk and the costs of capital. Risk costs are calculated for each segment based on product mix and customers’ risk profile. Economic capital is also considered in the value equation.

Armed with this in-depth understanding, banks can prioritize customer segments and offer them tailor-made products according to their value.

2.1.3. SINGLE POINT OF CUSTOMER OWNERSHIP

A final requirement in fully leveraging segmentation activities is to designate a single point of customer ownership to direct and coordinate different activities for SME clients. This can require a client-focused reorganization on the part of the bank, moving away from a product-centered organizational matrix.

In best practice banks, a dedicated SME customer management unit drives and tracks a wide range of activities through the network, acting as the representative for all client needs within the bank. In practice, the customer manager unit could coordinate marketing campaigns with relationship managers and product sales teams, while also defining new products and service models through the unit’s client interactions.

Moreover, within the customer management unit, a dedicated customer intelligence team is in charge of all the analytical tasks related to SME banking. This includes aggregating customer information, maintaining effective databases, and conducting analysis to support marketing activities. Marketing effectiveness relies heavily on the analytical efforts of the customer unit, as it tracks campaigns and designs tests to ensure the effectiveness of marketing efforts.

Single customer ownership also gives a single team the responsibility to develop scores and models to manage cross-selling and acquisition work within the client portfolio. The customer management unit not only serves as the first line of response to client needs, but also oversees customer satisfaction across the lifecycle. This includes responses to complaints and inquiries.

Finally, a single point of customer ownership has the advantage of assigning a clear responsibility for SMEs to a single point within the organization. Relationship managers will have to take on far greater responsibilities than in a standard retail-corporate structure, but they can offer a customized service that enhances customer loyalty and profitability.

2.2. Improving Acquisition and Reducing Costs

The acquisition of new customers plays an important role in banking. A successful acquisition strategy involves four main elements:

- Targeting effectiveness;
- Campaign management;
- Product and service optimization; and
- Customer onboarding.

2.2.1. TARGETING EFFECTIVENESS

Best practice banks are very proactive in targeting clients across all channels. Since contacting thousands of customers is expensive, it is necessary to focus on return maximization for the best clients, i.e., those for which a bank expects to realize the highest economic value added across the relationship.

Targeting effectiveness is the capability to understand clients’ potential and to contact them with the best combination of product, price, and contact channel to maximize the return on marketing investment.

For instance, high-value customers can be contacted in person and more frequently, since the expected return...
from a marketing contact is sufficient to justify the higher costs involved in this level of effort. In contrast, a low-value client might be contacted primarily via short message service (SMS) or email. Lastly, some clients will not be contacted at all, because they are either too risky or too unlikely to purchase a product.

Banks that prioritize their activities based on value are said to follow a value or customer value management approach. In this field some of the more advanced players include Santander, Capital One, and Wells Fargo.

To coordinate campaigns across channels, it is necessary to quantify the value of a client. Value models, which can estimate the expected net present value of a client, are at the foundation of this approach. Value models vary in complexity and will be described in Section 3.2.3. It is important that the value is estimated for each client individually, to include potential future revenues, cost to serve, risk cost, and cost of capital.

Value models represent the analytical engine for optimal decision-making on marketing, credit approval, and pricing decisions for customer management. In marketing campaigns, for example, these models can identify those clients with a high demand and acceptable risk levels, and ultimately quantify their expected return if contacted.

Practitioners of value approaches will typically integrate risk scores in deciding which clients to target. This ensures that only the smallest percentage will be rejected for credit reasons. Leveraging risk analytics capabilities for marketing and business development purposes can be a major differentiator in the market, and may reduce acquisition costs, thereby increasing average profitability of the client portfolio. Applying a value prioritization across channels allows for coordinated campaigns across all channels and a resultant maximization of the return on investments.

Value models can also be used to simulate the best next product for a client. In considering the likelihood of the client purchasing a product, the model can simulate the expected value if the client is contacted with a specific offer. This leads to campaigns that focus not only on the best clients but also on providing them with the best products.

Finally, value models allow a bank to price its products at the optimal level, thereby maximizing the value of each client relationship.

2.2.2. CAMPAIGN MANAGEMENT

Acquiring new SME clients requires a targeted marketing strategy. Laggard banks typically are satisfied with capturing the few new clients that walk in to a branch or choose a bank after visiting its webpage. Best practice banks are very proactive in conducting systematic marketing campaigns to attract new SME customers and cross-sell across all the channels (e.g., relationship managers, branch, Internet, mobile, call centers).

Marketing campaigns are typically managed centrally, in that they are planned and coordinated with the distribution network by a central unit across different channels. This unit will track the performance of the campaigns, quantify their return on investment across channels and, based on this information, evolve new campaigns. For instance, particularly successful campaigns can be extended while an unsuccessful one could be terminated or modified.

From an organizational standpoint, campaigns are managed with a completely different approach depending on the segmentation used. Small enterprises are more conveniently targeted with retail-style approaches that involve value models, mass campaigns, and a segmented approach.

As clients’ needs become more complex, and their company sales grow larger, the account management approach should become more effective. Relationship managers dedicated to larger SMEs will follow a smaller group of clients, typically in the same sector, with whom they will have a direct and personal relationship.
2.3.3. PRODUCT AND SERVICE OPTIMIZATION

Best practice banks distinguish themselves through:

■ Tailoring product/services to diverse SME needs;
■ Systematic in-market tests and continuous innovation;
■ Coordination of marketing, sales, and back-office activities; and
■ A dedicated product management unit.

First, after developing an actionable SME segmentation, marketing groups focus on developing a strategy. Along with the creativity of the marketers, useful sources of ideas include survey results, competitor intelligence, and inputs from the sales force. Lastly, engaging with trade associations and other SME stakeholders can provide further insights.

New concepts then undergo a selection and refinement process. Focus groups with SMEs are used to collect qualitative impressions from small groups (10-12 people) on product or service concepts. Another tactic is to conduct one-on-one interviews with current and prospective SMEs in order to understand needs. New ideas are evaluated with respect to feasibility and originality, to avoid launching poor products that will burden the sales force. The products should appeal to a major segment at least, and demonstrate good potential profitability.

Through systematic in-market testing, product characteristics such as term, grace periods, fees, and pricing are refined. Institutions like Wells Fargo and Santander launch marketing campaigns that are organized by test cells. In each cell, a different product/segment combination is tested. The marketers note the level of success in each cell, which they then test with statistical models, allowing the bank to identify the best product for each segment.

New ideas are continuously proposed and tested to support a cycle of continuous innovation. Santander Bank has been a major proponent of this approach dubbed “test and learn.” Recently, best practice banks have begun launching specific sub-brands for high-potential micro-segments. An example is in the agricultural packages that are offered with independent brands.

Banco Santander — The pioneer of value approach and product testing

Banco Santander was once a small regional Spanish bank that has since grown to become one of the largest banks in the world in just over a decade. Banco Santander has accomplished this through an aggressive acquisition path in both advanced and emerging markets. In 2004 the Bank acquired the much larger U.K. lender Abbey National, and in 2007 it acquired the Brazilian operations of ABN AMRO. At the height of the credit crisis, the Bank acquired Alliance & Leicester and the deposits and branches of the nationalized Bradford & Bingley. Santander also struck a deal to acquire all shares of Sovereign Bancorp, a U.S. retail bank. Finally, Santander made a string of smaller acquisitions that further strengthened its operations in the Germany, Mexico, United Kingdom, and the United States.

One of the main success factors in the bank’s growing strategy is the common IT platform that Santander shares and integrates into every acquired bank. This system provides Santander with a complete understanding of customer behavior and needs. The Bank can monitor client accounts, collect customer data across all its channels and products, and analyze each customer with advanced statistical models to predict risk and purchasing behavior.

By leveraging this information, Santander has been a pioneer in building advanced value models to optimize its marketing campaigns to SME banking. Santander is one of the first banks to augment SME credit ratings by considering the owners’ credit information and integrating these ratings into its marketing campaigns via pre-approved marketing offers. This has been an important factor in ensuring the success of its acquisition campaigns: the Bank only infrequently turns down new clients due to risk related reasons.

Banco Santander’s segmented product proposition relies on a “test and learn” approach. Outbound campaigns are systematically organized in hundreds of different cells that test a different product/segment combination. A rigorous comparison of the test results with statistical
models leads to the launch of new products and the modification of existing products. The result is continuous product and service innovations that are targeted to the most appropriate clients. Figure 12 shows a schematic of this approach.

The first step in the innovation cycle is to generate new ideas to test, and based upon estimates of expected results, the weakest concepts are eliminated. To obtain the best ideas, marketers then test a range of characteristics. For instance, in a flexible repayment loan, a range of different duration periods in which the client can suspend payments can be examined, in addition to testing a range of interest rates and terms. In a typical test the product combinations can easily become hundreds; for example testing four levels for each of the above features would lead to 64 (4 X 4 X 4) different product combinations. However, testing all of the combinations with a separate cell is too expensive, so statistical techniques are used to design an effective test with fewer cells.

The test design also includes a clear definition of the metrics to set the milestones for terminating or modifying the test. Since tests are expensive, a clear failure would be terminated early or modified. After the test, the results are analyzed and the optimal offer is applied in the next campaign to all clients. Banco Santander runs hundreds of these tests every year and continuously innovates the products offered to different clients.

**Figure 12 Example of Test and Learn Cycle Applied by Banco Santander**

*Test and Learn cycle*

- Determine if additional tests are required
- Apply learning and modify products
- Hypothesize likely tactic impact
- Quantify ex-ante value estimates
- Determine attributes to test
  - Behavioural drivers
  - Offering characteristics
- Collate and summarize test results with logistic regression
- Set testing milestones
- Execute tests
- Track process
- Determine number and size of combinations to test
- Determine metrics for tracking

**Figure 13 Lessons Learned from Banco Santander**

- Customer value management — Use analytical value tools to focus marketing campaigns on best clients, increase credit approval, and apply risk-based pricing
- Product and service optimization — Continuously innovate with new products and services optimized through in-market test
2.2.4. CUSTOMER ONBOARDING

Customer onboarding is the process through which banks introduce and integrate new clients in their franchise.

Surveys consistently show that the elements of good onboarding are the speed of processing the first product and the ease of doing business with the new bank. Short disbursement times are particularly important for new clients as they send a message of trust and customer care. This requires high levels of automation in credit decision making, leading to 90 percent of files being processed within two days for a best-in-class bank. Standardized application forms specific to SME clients should facilitate a fast application process without having to provide excessive documentation.

From a relationship standpoint, onboarding refers to the first communications from the bank to a new customer. SME clients frequently have only a superficial idea of the type of products and services that a bank can provide them. While it is standard practice to send mailings to explain the features of the first product purchased, best practices include an automated process to do much more.

A welcome package that explains potential services and products, and their benefits to the clients, goes out automatically. The most appropriate channel for tailored communications depends on the client segment value. For instance, for high-value clients, relationship managers will schedule in-person visits to build a relationship and to get to know the client better.

2.3 Increasing Revenues Through Cross-sell/Up-sell

Cross-selling is the action of selling multiple products to the same customer, and is essential for profitably serving SMEs. Figure 14 shows a profitability and revenue analysis of the portfolio for a best practice SME bank. All the figures are relative to the median number of products sold (i.e., three).

The sale of the first product adds revenue but, on average and considering allocated costs, has negative profitability. Profitability is reached when selling at least two products and when the number of products positively correlates with higher profits.

FIGURE 14 CUSTOMER REVENUE AND PROFITABILITY BASED ON NUMBER OF PRODUCTS SOLD TO EACH CUSTOMER (INDEX: 3 PRODUCTS = 100)

Revenue and profitability based on number of products sold

(Source: Roland Berger Strategy Consultants analysis; example derived from an emerging market bank)

9 Roland Berger strategy consultant research (2011). Survey and selected interviews on a sample of SMEs operating in emerging markets.)
Deepening relationships and becoming the customer’s primary bank has significant advantages to a bank. It allows for a better understanding of customer needs, thus improving cross-selling. On the credit side, because the bank is able to monitor the cash flows through the SME main operating account, the bank can also spot credit deterioration faster and, on average, suffer lower losses. Lastly, clients tend to be more loyal to their main bank, affording better retention rates and pricing. Figure 15 illustrates the importance to an emerging market bank of being the main bank.

In the example, it is evident that the customers that consider the bank their main financial institution are less risky, more profitable, and less likely to leave the franchise.

Cross-selling best practices have eight characteristics in common:
- Customer education;
- Product bundling;
- Product portfolio management;
- Cross-unit sales and referrals;
- Event-driven marketing;
- Coverage model and account management;
- Optimized pricing strategies; and
- Loyalty management.

2.3.1. CUSTOMER EDUCATION

Customer education has a clear upside for banks: it can establish the bank as the client’s primary provider of financial products. The interaction between client and bank staff in financial training programs establishes personal links and increases loyalty to the bank by widening the banking relationship beyond mere lending. Another positive effect is the creation of demand by customer education. Many SMEs are not aware of the whole spectrum of products and service options available. Through educational services, banks can advertise more complex financial solutions. This gives the bank’s relationship managers more time, opportunity, and access to cross-sell financial products. Hence, customer education can increase client loyalty and demand for more complex financial products.

Figure 15 COMPARISON BETWEEN “MAIN BANK” AND “NON MAIN BANK” SEGMENTS

(Source: Roland Berger Strategy Consultants research, 2011)
Best practices can provide a variety of non-financial advisory support across four main areas of SME education and support:

- **Relationship manager support.** Relationship managers are increasingly giving advice on business topics. For instance, at NIC Bank, RMs support clients by preparing their financial statements and providing assistance without charge on a case-by-case basis. Another example is in South Africa, where banks use software to automatically aggregate their clients’ account movements into a financial statement and balance sheet. This helps the bank and the client to better understand the client business.

- **Training programs.** Some banks provide workshops, seminars, and courses, at times in partnership with third parties (e.g., universities, nonprofits). For example, Westpac in Australia offers very interactive finance and management courses; the lectures are combined with break-out group sessions to share best practices among the SMEs. Other banks, such as The Republic Bank in Trinidad and Tobago, have partnered with local graduate schools to offer a series of free business seminars. IFC also offers trainings through the Business Edge program seminars that train SME managers in the areas of Human Resources (HR), Marketing, Finance, Operations, and Personal Productivity Skills.

- **Consulting activities.** Advice and guidance is also provided to SMEs through business mentors or coaches. Consulting can cover strategic topics (e.g., financial management, business planning), regulation, marketing, and even HR. TEB bank in Turkey has set the standard by training its best RMs as specialized consultants in different areas of interest (e.g., international trade, marketing, production, etc.) that are typically neglected by SMEs.

- **Information dissemination.** Best practice banks provide SMEs with information via their websites, publications, and business centers. For example, banks can post on their website videos of successful entrepreneurs, blogs that discuss SME growth challenges, reports on best practices, etc. An interesting trend is

**FIGURE 16 SANTANDER WEBSITE SECTION DEDICATED TO SME EDUCATION**
to provide on-line free software tools. Access Bank in Nigeria, for example, provides a free financial tool that supports business planning and financial management, providing templates for cash flow forecasting, profit and loss analysis and balance sheet accounting. Santander has on its website a large section fully dedicated to SME education, as shown in Figure 16. IFC’s “SME toolkit” also offers a range of practical advice. IFC helps small and medium enterprises in emerging markets to learn sustainable business management practices through several communication channels. The SME Toolkit consists of a web and CD-ROM interface, a large collection of tools, business forms, news items, and “how-to articles”, and a business training curriculum for SMEs.

Despite potential ambiguity in the role, finding the right balance between being a bank and being the advisor of choice can offer a clear hedge, particularly in emerging markets. Banks that master these activities can easily become the customer’s main bank and acquire an in-depth client knowledge that can improve customer profitability considerably.

2.3.2 PRODUCT BUNDLING

As a first step, cross-selling requires a bank to focus on customer campaigns to promote new products.

Best practices tailor and promote product and service bundles. Bundles are a combination of products and services offered in one package, typically at a discount with respect to the combined price of the individual elements. There are two main types of bundling: volume and segment-based.

Volume bundles are simply tiered offers that become more convenient, typically through fee waivers if the client reaches a sufficient “volume” across its whole relationship. Figure 18 illustrates an example of segment bundle, where more services are available depending on the type of bundle and fees are waived if sufficient balances are kept on the account.

Sector-based bundles are designed to fit the needs of a specific segment. Figure 19 illustrates the segments to which ICICI Bank provides specific segment bundles, as well as their features.

Bundles can be very appealing to SMEs when offered as a convenient and simple one-stop-shop solution to their needs. For banks, such bundles can make individual clients more profitable and loyal. The strength of a product bundle comes from offering the right combination of products that will lock the client in for the long term, while ensuring that the overall client profitability remains satisfactory.

Services such as payroll processing could be sold cheaply, as they can be used to lock in clients. In a bundle, basic transactional products such as current accounts are sold with low or even negative margins as hooks for other more profitable products that form part of the package.

Bundles seldom include high-margin products, but past data allow banks to determine whether their strengthened client relationships will allow opportunities to cross-sell. In addition, retention of clients through transactional products and payroll processing provides a bank with an important information hedge.

Bundles play an important role in cross-selling activities, but their design and particularly their pricing is critical; a bundle that is too convenient can increase volume but destroy profit, particularly by cannibalizing existing products. To launch these bundles, the best players use systematic market research to understand price sensitivity and to continuously pilot new initiatives on a small scale. Finally, best practice banks have found that the time required to develop, test, and launch different bundles aimed at high-interest micro-segments is significantly shorter than that needed by less innovative players (less than 6 months), allowing the best practice banks to maintain a substantial lead in the market.

2.3.3 PRODUCT PORTFOLIO MANAGEMENT

Product portfolio management simplifies and standardizes the product portfolio based on the value of each product’s contribution.
Türk Ekonomi Bankası (TEB) was established in 1927 as a small-scale regional bank. Despite being a latecomer in the Turkish SME banking sector, TEB is now an important player in Turkish SME banking.

TEB believes that providing capacity-building support to SMEs can have enormous potential in building a loyal and healthy client base, gaining new SME clients, and decreasing credit risk. As a consequence, TEB has developed and implemented training, consulting, and information sharing services to SMEs since 2005.

TEB customer education strategy has supported the bank’s growth. SME clients increased from under 20,000 in 2005 to 650,000 in 2011; SME loans as a share of total loans have grown from 25 percent in 2006 to 44 percent in 2011, while loan delinquency rates decreased. Driven by TEB success, BNP Paribas (one of TEB’s larger shareholders) is looking to further replicate this model in selected European markets.

The two main pillars of TEB education strategy are the TEB SME Academy and the TEB SME Consultants.

The first is a training service offered to SMEs since 2005 to enhance SME skills. Training events are offered on a monthly basis in different Turkish cities to both current and prospective SME clients.

Three important design and implementation principles made TEB SME Academy a success. First, the training is limited to a 1-day session. SME owners and managers are very busy with day-to-day management issues and cannot afford to attend lengthy trainings. Second, the training is tailored to the needs of Turkish SMEs. Based on market research, TEB focused the sessions on strategic planning, foreign trade, growth strategies, and process management. Third, the training is highly interactive with many case studies, and the lecturers are well-known SME experts and business leaders.

Since 2005, TEB SME Academy has delivered more than 50 training sessions in 33 cities with more than 11,000 participants. Data collected suggests that 60 percent of attendees in the training sessions are clients and 40 percent are prospective clients, of which 60 percent end up becoming clients. Additionally, TEB deepens its relationships with existing clients, creating strong brand recognition, and demonstrating leadership in the SME sector.

The second main initiative is the development and deployment of TEB SME Consultants. TEB’s best RMs are trained through an extensive 2-year SME business management course, which leads to a recognized certification. The course offers different areas of specialization. Once they are certified, TEB SME Consultants are in a position to provide highly valued one-on-one consulting services to SMEs.

TEB is able to develop a 360-degree understanding of its customers, not only with respect to their financials, but also regarding their business strategy, production, sales, marketing, human resources, and organization. This knowledge leads to lower risk, improved cross-selling and strong loyalty amongst the customer base.

**FIGURE 17 LESSONS LEARNED FROM TEB**

- **Enrich SME offering with non-financial services** — TEB has developed training, consulting, and information sharing services gaining new SME clients, increasing customer loyalty, and decreasing credit risk
- **Provide one-on-one advisory service to SMEs** — TEB offers a customized consulting service to SMEs to better understand their businesses and to reduce credit losses
FIGURE 18 A TYPICAL VOLUME-BASED BUNDLE EXAMPLE

Segment bundles

<table>
<thead>
<tr>
<th>Segment</th>
<th>Business classic</th>
<th>Business banking checking</th>
<th>Business plus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TARGET CUSTOMERS</strong></td>
<td>Small and simple; medium and deposit only</td>
<td>Medium and deposit only</td>
<td>Large/complex</td>
</tr>
<tr>
<td><strong>MINIMUM DEPOSIT BALANCE</strong></td>
<td>Minimum monthly balance of USD 7,500</td>
<td>Minimum monthly balance of USD 40,000 (relationship view across business accounts)</td>
<td>Minimum monthly balance between USD 50,000 and USD 300,000 (relationship view across business and personal accounts)</td>
</tr>
<tr>
<td><strong>MONTHLY FEE</strong></td>
<td>Monthly maintenance fee of USD 15 if below minimum balance</td>
<td>Monthly maintenance fee varies by balance</td>
<td>Monthly maintenance fee varies by balance (USD 25 - USD 100)</td>
</tr>
<tr>
<td><strong>BUNDLE DESCRIPTION</strong></td>
<td>Money market, deposit accounts, customer deposits</td>
<td>Money market, deposit accounts, customer deposits</td>
<td>Money market, deposit accounts, customer deposits</td>
</tr>
<tr>
<td></td>
<td>Installment loans and unsecured letters of credit</td>
<td>Installment loans and unsecured letters of credit</td>
<td>Installment loans and unsecured letters of credit</td>
</tr>
<tr>
<td></td>
<td>100 free transactions per month</td>
<td>Unlimited number of transactions</td>
<td>Unlimited free transactions</td>
</tr>
<tr>
<td></td>
<td>Online banking</td>
<td>Online banking</td>
<td>Online banking</td>
</tr>
<tr>
<td></td>
<td>Debit card</td>
<td>Debit card</td>
<td>Debit card</td>
</tr>
<tr>
<td></td>
<td>Check coverage</td>
<td>Check coverage</td>
<td>Check coverage</td>
</tr>
<tr>
<td></td>
<td>No access to a relationship manager, but generalist support at branch</td>
<td>Call center access 24/7</td>
<td>Call center access 24/7</td>
</tr>
<tr>
<td></td>
<td>Call center access 24/7</td>
<td>Attractive rates on linked accounts</td>
<td>Attractive rates on linked accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FIGURE 19 ICICI BANK PRODUCT BUNDLING BASED ON SME SECTORS

<table>
<thead>
<tr>
<th>TARGET SEGMENT</th>
<th>BANK GUARANTEE</th>
<th>CASH MANAGEMENT SERVICES</th>
<th>EQUIPMENT FINANCING</th>
<th>FACTORING</th>
<th>LETTER OF CREDIT</th>
<th>OVERDRAFT</th>
<th>RISK MANAGEMENT</th>
<th>TRADE FINANCING</th>
<th>WORKING CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUTOMOTIVE</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>INFRASTRUCTURE</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>LIFE SCIENCE</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>IT &amp; ITeS</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>ENGINEERING</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>EDUCATION</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>
Product bundles and continuous innovation at segment level frequently lead to product proliferation. A portfolio with too many products presents several disadvantages.

First, the sales force and the relationship managers will struggle to remember all the products, and as a consequence the best options might not be explained to the right clients.

Second, too many products can lead to too many different selling processes and policies, which can increase processing time and worsen service quality. On the revenue side, overlapping products might cannibalize each other without creating value.

As a consequence, best practice banks actively manage their product portfolio, not only developing new offers but also eliminating offers that are not creating value.

Such banks will monitor in real time the performance of the products in terms of the evolution of sales volume, margin, cost-to-serve, and profitability. For each product, a profile of the typical client and its product holdings is tracked; this analysis quantifies the indirect value created by a product. For instance, services such as payroll processing are sold cheaply and are used to lock in clients. As a consequence, their value is in their impact on churn and cross-selling and not on their direct profitability.

Once direct and indirect product values are quantified, the customer management team is then in a position to simplify and enhance the product portfolios (i.e., eliminate products that are not profitable).

Figure 20 shows a profit analysis of an SME product portfolio. The customer management team simplified the portfolio by eliminating over 60 percent of the products that increased costs and did not contribute to the top line.

2.3.4. CROSS-UNIT SALES AND REerrals

The overall client relationship value is also the focus of cross-units sales initiatives. Cross-Unit sales stem from a client that originated in a SME banking relationship but was later extended to other banking services such as private and retail-banking, and vice-versa.

Figure 21 shows different types of cross-selling.

The owners of SMEs could be targeted with private banking offerings or with retail offers depending on their wealth. Conversely, the bank can mine retail and affluent customer data to obtain new SME contacts. The logic is to establish the bank as the “main bank” for both personal and professional needs. In fact, convenience is one of the main reasons for clients to consolidate their business in one bank.

Systematic data mining across units and across other companies belonging to the same group expands the ability to extend and deepen relationships. This requires sharing client data across units and from different group companies. Some banks actively look for external affinity partnerships to get client lists and precious information. In affinity deals, special offers are tailored to the needs of the partners’ client while the partner company shares all the information useful to better target its customers.

Cross-units sales also come through real time leads. If, during a contact, a client is identified as a good lead for
another unit, a lead system allows the opportunity to be referred to the corresponding unit in real time.

To foster extensive cross-unit sales, a single owner of the referral program and global incentives need to be in place; such incentive schemes should include explicit cross-targets across business units.

Lastly, banks must be aware that they can push their cross-unit sales strategy only if clients perceive it as a benefit and not a nuisance. Market research to understand client reactions helps in fine tuning these campaigns and in selectively developing joint products across different partner companies.

2.3.5. EVENT-DRIVEN MARKETING

Banks can stimulate their cross sales by event-driven marketing actions, which target clients individually in specific moments of their relationship with the bank. This approach primarily covers four distinct situations — activation, contract renewal, dormancy, and retention — and, among best practice banks, is fully automated and differentiated by SME segments.

Event-driven marketing as an activation strategy is typically triggered by the opening of a new line of credit. The actions at this stage are often educational and meant to stimulate usage. Contract renewal, on the other hand, aims to continue the banking relationship. At the end of a loan, for example, clients are sent pre-approved renewal offers. Event-driven marketing as part of a dormancy strategy encourages inactive customers to re-activate their relationship with the bank, while retention marketing tries to target clients that are about to leave the bank.

Suggested marketing actions should be based on an analysis of the client’s total profitability and should include real-time behavioral data (e.g., offering an up-sell when a client with a good risk score uses most of his line of credit). The key for success in event-driven marketing actions is continuous improvement through testing: the bank monitors customers’ behavior, collects data in a centralized database, and performs predictive analysis to define the best marketing actions for each key event. The application of event-driven marketing will be discussed in more detail in Section 2.4 “Improving retention and activation.”

2.3.6. COVERAGE MODEL AND ACCOUNT MANAGEMENT

A coverage model describes how different client segments are served by the relationship managers (RMs) or equivalent roles within a bank. The most basic metric defining a coverage model is the number of clients per RM. Since customer management aims at providing the best service in the most cost-effective way, RMs need to be organized according to optimal coverage models.
Bankinter — A World Leader in Cross-Selling

Bankinter is a Spanish bank founded in 1965 as a joint venture of Banco Santander and Bank of America. In 2001, Bankinter participated in a joint venture with Capital One, a global leader in customer analysis and valuation and launched its SME banking activities. Since then it has become renowned for its cross-selling initiatives, with more than five products sold per customer on average (Figure 22).

One of the key success factors of Bankinter’s cross-selling strategy is its strong, multi-channel approach. The bank was the first in Spain to implement online and mobile banking. Virtual branches, Bankinter’s latest innovation, are online sites that offer all the products and service capabilities of a branch, specialized for SMEs. The client can contact the relationship manager by phone (e.g., using the Internet to make cheap calls), video-conference (enabled on the website), e-mail, or web-chat via instant messaging. Moreover, the website includes content that is relevant to SMEs, such as forums and industry trend information.

In addition to its innovative channels, Bankinter has also increased its physical presence “on the ground” through two initiatives:

- A network of SME business centers in industrial areas with a high density of enterprises; and,
- Kiosks on the premises of companies, public agencies, and associations.

The Bank offers the entire range of products at the same price through all its sales channels. Figure 23 shows the positioning of the Bankinter business model.

Figure 23 highlights the multi-channel strategy of the bank and its tiered service approach. Service level ranges are carefully tiered, from high-quality advisory with in-person client interaction, to low-cost automated email contacts.

All the channels are interlinked and collectively feed a centralized information system that offers a complete picture of the customer. This 360° view, which includes account details, profitability, transactions by channel, customer history, and relationships, is available to all customer-facing employees. The sales process is also supported by an advanced event based customer management system. The system suggests appropriate products and schedules contacts for each customer, enabling cross-selling initiatives. Moreover, Bankinter has leveraged the information that can be legally used across the other group companies — which include an insurance company, an insurance broker, and a fund management company — cross-selling across different enterprises. This cross-selling approach allows Bankinter to reach more clients and to enrich its offers with products from partner companies.

Finally, to increase loyalty, the Bank provides high service quality. A monthly survey is used to track customer satisfaction and opportunities for improvement. The net satisfaction index (NSI) of its customers (i.e., the likelihood of a customer recommending Bankinter as a financial institution) is the core key performance indicator (KPI) of this survey and is linked to the compensation of all the employees.

FIGURE 22  CROSS SELLING RATIOS AT MAJOR SPANISH FINANCIAL INSTITUTIONS

Cross-selling ratios

<table>
<thead>
<tr>
<th>Bank</th>
<th>Cross-selling ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco Popular</td>
<td>3.1</td>
</tr>
<tr>
<td>Banesto</td>
<td>3.4</td>
</tr>
<tr>
<td>BBVA</td>
<td>3.5</td>
</tr>
<tr>
<td>Santander</td>
<td>3.7</td>
</tr>
<tr>
<td>Banco Sabadell</td>
<td>3.9</td>
</tr>
<tr>
<td>Bankinter</td>
<td>5.6</td>
</tr>
</tbody>
</table>

(Source: Roland Berger Strategy Consultants Research)
FIGURE 23  BUSINESS MODEL OF BANKINTER POSITIONED IN THE BANKING INDUSTRY

Current Bankinter positioning

- COST
  - LOW COST/NO FRILLS
  - TECHNOLOGY

- MAIN APPROACH (CLIENT)
  - UNIVERSAL
  - PERSONAL BANKING “FACE TO FACE”
  - REMOTE PERSONAL BANKING

- QUALITY AND SERVICES
  - ADVISORY
  - OTHER BANKS’ BUSINESS MODELS

- FACE TO FACE
  - MAIN SERVICE MODEL
  - REMOTE

FIGURE 24  LESSONS LEARNED FROM BANKINTER

- **Multi-channel approach** — Provide excellent customer service and multiply sales opportunities leveraging state-of-the art remote channels and dedicated SME branches

- **Cross-selling excellence** — World class cross-sell rates achieved through:
  - Leveraging customer information to offer best products for each customer
  - Using of advanced event based customer management system to suggest best products and schedule contacts for each customer
  - Selling across the group companies (e.g. insurance, fund management)
Many banks do not have a formal approach, and leave the RMs to allocate their time independently.

The best approach is a tiered system in which coverage ratios (i.e., the number of SME clients served by one RM) and contact channels are differentiated according to customer value. Figure 25 illustrates an example from a best practice bank applying this approach.

Typically, the highest value clients are served by the most skilled RMs through an account management approach. This requires defining a yearly contact plan, individual target objectives (for RMs), customer profiling, and tracking of the development of individual relationships.

Most face-to-face pro-active contact is allocated to these clients, with increasingly remote services for lower value clients. Frequency of contact is also tiered according to value.

To provide a degree of personalized contact through remote services, specialized teams can also serve the same set of clients. For instance, for call center SME support hotlines, a client can always be routed to the same group of specialists. These groups provide a personalized service while managing much larger groups than in corresponding face-to-face customer portfolios. Bankinter, for example, uses a “virtual branch” concept that enables specialized RMs to be connected through virtual conference with their customers.

To ensure service quality, tracking metrics such as NPS (net promoter score, the percentage of customers that are very satisfied minus the percentage of the unsatisfied) and percentage of active customers should be integrated into the performance management and incentive systems across all channels, including call centers, RMs, and branches.

### 2.3.7. OPTIMIZING PRICING STRATEGIES

A final element to increasing share of wallet and revenue is relationship-based pricing. Adopting this approach involves clients being offered different prices based on a series of factors among which value is the most important.

Pricing should be based on an in-depth understanding of client profitability, and supporting pricing tools should aim to limit the discretion of relationship managers (and thus their tendency to favor business volume over risk and profitability), replacing it with a price that is centrally defined.

Repeated bank surveys have pointed to the damaging effect that a lack of risk-based pricing controls can have on bank profitability. In fact, for loans that meet the minimum standard to secure approval, pricing in many banks is not influenced by risk.

Applying risk-based pricing represents a first step towards optimizing pricing strategies. Risk-based pricing requires risk information to be considered in the pricing products. As previously noted (see section 2.2.1), this needs to include not only the cost of risk (i.e., the expected losses from a client) but also the cost of capital. Higher risk clients can therefore obtain credit, albeit at a higher price, rather than be rejected. The higher price should more than compensate for the expected higher risk.

The core element of this approach is the use of pricing tools, mathematical models that calculate the price required to accept a high risk client. Figure 27 shows a schematic representation.
Diamond Bank — A Specialized Coverage Model

Established in 1991, Diamond Bank is a Nigerian universal bank. In 2009, the Bank received an award as the “Nigerian Bank of the Year” and was the first large bank in Nigeria to target the SME segment.

The Bank initially targeted all business customers with annual turnover up to NGN 480 million (about USD 3 million). The results have been impressive: Diamond Bank has grown its portfolio profitably with more than 75,000 clients, and is seen as Nigeria’s SME bank. Diamond has achieved this position by leveraging a specialized sales force. In addition, Diamond has constantly reviewed and improved its SME banking processes.

Before the bank adopted its SME coverage model, SMEs were not a priority. The average RM served 60 business customers, in addition to 300 individual accounts, while the RM for national corporates covered 8 national corporate accounts and 35 smaller businesses. This model proved not to be effective in terms of increasing both efficiency and share of wallet. With the introduction of the new SME approach, SME RMs cover SME customers exclusively. Teams of two to three RMs in every branch are responsible for up to 175 SME customers. This has increased the specialization of the RMs, which now have a better understanding of their customers.

The specialized RMs also play a very important role for credit approval. They gather standardized information when visiting clients, and then analyze the clients through a scoring system. The credit applications are then processed in a centralized facility using the information provided by the RMs. Using this additional intelligence has improved Diamond’s processing speed, reduced costs, and improved credit quality. Gathering “on the ground” information is particularly important in markets like Nigeria, where public information on prospective customers is very limited.

FIGURE 26 LESSONS LEARNED FROM DIAMOND BANK

- Implement a SME focused coverage model with specialized RM teams — Diamond Bank RMs are fully dedicated to SMEs and develop a deep specialization while serving them more effectively

- Enriching the credit approval evaluation — Diamond Bank has improved the credit approval process with the use of information gathered “on the ground” by the relationship managers
The pricing model is embedded in the bank’s information system and provides front-end employees with real-time prices.

Advanced banks are augmenting their pricing models, considering elements like client price sensitivity, overall client value, and market conditions. For instance, if a client is not particularly price sensitive and has relatively low potential, a pricing tool will suggest higher prices. In a highly competitive market situation, with high-value clients, better pricing and fee waivers would be applied automatically. With a very experienced sales force, a pricing tool might also suggest an interval of negotiation to allow skilled employees to apply, within appropriate boundaries, their best judgment.

Pricing tools should also account for the term of a loan; long-term loans require higher prices. Deviations are possible based on overall customer relationship value. Long-standing and profitable customers are typically rewarded by preferential pricing on some cross-selling products. Exceptional circumstances such as account activation or customer retention can be taken into account.

Best practice banks closely monitor exceptions and overrides to the pricing tool recommendations, as they may point to either relationship managers trying to hit volume targets by acquiring high-risk business or, conversely, possible improvements of the pricing tools.

2.3.8. LOYALTY MANAGEMENT

Learning from retail banking, a number of banks have launched loyalty programs for SME clients in order to reward clients with high share of wallet and foster long-term relationships.

At their simplest, loyalty programs can provide points or incentives based on business credit card spending, as well as offering the possibility to purchase at a discount within a predefined network of business partners. Such points can then be used for gifts, money, or discounts on the bank’s products and services (e.g., trading fee waiver). More sophisticated schemes will also reward the customer with points across all products, as well as individualized time spent with bank representatives and referrals.

Clients increasingly value schemes in which point balances can be managed on the bank’s website. Such programs typically allow points to be transferred to or from another loyalty program with a business partner (e.g., airlines, hotels, supermarkets) and have some features that can be selected and customized by the client (for instance, choosing not to have a discount with a group of business partners but having better loan terms).

Best practices identify a clear owner of the program within the SME group, and the benefit of the programs are carefully tracked and assessed against their costs.
2.4. Improving Retention and Activation

Retention and activation strategies aim at actively managing the length and frequency of customer interactions and relationships between an SME and a bank. Through retention strategies, a bank’s relationship manager can prevent a customer from leaving. Activation strategies can be used to encourage dormant clients to restart an active involvement with the bank.

Activation, renewal, dormancy, and retention processes need to be considered and integrated within a broader, event-driven marketing process. This process generates automated marketing actions when a client is in a specific situation.

2.4.1. ACTIVATION STRATEGIES

Activation strategies are based on an event-driven marketing approach that triggers actions when a customer signs a new credit line. The actions at this stage are typically educational. Clients receive welcome packages including product explanations. High-value clients also may receive in-person visits from relationship managers.

Typically, if the customer has not used the product for more than a while, typically three to six months, the process automatically suggests improved offerings consistent with the value of the client. Value models suggest the type of offering. The process also dictates the frequency of attempted contacts and the channel to be used (e.g., phone, e-mail, text messages, and in-person visits).

At the renewal of a line of credit or at the end of a loan, based on risk scores, well-established clients are sent a pre-approved renewal offer and their relationship managers are notified of the need to renew their contracts.

If a client has been inactive or dormant for a long time, a year or more, an automated sequence of offers and messages are sent at specific dates to re-activate the relationship with the bank. For example, after one year, a good offer is sent along with a congratulatory message thanking the SME client for its first year of business with the bank. If the client remains dormant, offers are improved at every contact. For high-value clients, even products that are unprofitable for the bank may be offered, along with in-person visits.

2.4.2. RETENTION STRATEGIES

Retention activities follow a similar logic, although they are split into proactive and reactive. Reactive offers are triggered by the stated intention to leave the bank. Best practice banks use sales management tools that automatically provide front-end employees with a retention offer and a negotiation range; the banks track the final result. The best strategies allow RMs to offer a wide range of solutions to possible defectors, including not only discounts but also access to new services. Lastly, even when the retention offer is unsuccessful, the reasons for leaving provide important information that a bank must collect and analyze.

Proactive campaigns are structured marketing campaigns directed to potential defectors before they leave. These campaigns should be intensified in periods of increased price competition; subsequent monitoring of the churn rate and its drivers is an important element in retention strategies. As a first step, banks must analyze their portfolios to identify the main reasons to leave. To identify these drivers, the main tools are surveys of defectors (i.e., customers leaving the bank), analysis of competitors’ offers, analysis of customer data to identify patterns in defections, and feedbacks from relationship managers.

Then the customer portfolio is analyzed to estimate which client might prepay or leave the franchise; best-in-class banks use behavioral retention scores capturing client transactions and product usage to identify the clients with the highest probability of departure. Sudden drops in financial activity with a bank or withdrawing a large sum from deposits are typical indicators of future defection. Profiles for the potential leavers are compiled to identify the best approaches for retention. Finally, retention offers are sent to clients most at risk, and their relationship managers are told to contact them.
The final element to make retention strategies more effective are incentives to RMs and front-end employees; churn rate (or its complement, retention rate) should be linked to their variable bonuses.

2.5 Optimizing Collections

Collections include all the activities necessary to recover unpaid debts. Collection activities are divided in soft collection (which goes from the first missed payment until the first three months of delinquency), recovery (which lasts until six months of missed payments, when the client is formally in default), and legal (when the default is official and the bank can start legal action to recover its debt). Yet for SMEs, there cannot be an effective collection without a timely identification of problematic situations. Monitoring is the process of identifying signs of credit quality deterioration and taking measures before clients become delinquent (i.e., are not paying their debts). Best practices in collections stand apart for including five primary characteristics:

- Structured recovery/collection processes;
- Fact-based decision-making/work-out strategies;
- Work-out and collection organization;
- Effective early warning systems; and
- Supported tools and workflow.

2.5.1. STRUCTURED RECOVERY/COLLECTION PROCESSES

Banks with high-performing collection departments adopt various collection methods for diverse types of delinquent clients in different stages of collection (soft, recovery, and legal). The first difference is based on company size. Figure 28 illustrates some key distinctions:

- During soft collection, only call centers contact the client in the case of very small enterprises (the RM is not involved).
- For larger clients, the role of the RM is more important, particularly in suggesting solutions during soft collection.
- For medium enterprises, recovery and legal are more important and require the intervention of specialized groups.

In general, an account management approach, whereby attention is focused on individual clients with strong support from the RM, is reserved for larger SMEs.

In general, an account management approach, whereby attention is focused on individual clients with strong support from the RM, is reserved for larger SMEs.

Advanced collection strategies segment clients with respect to their past due status (i.e., the number of days since the first missed payment, their risk level, bank exposure, response to collection actions, and the financial situation of the client). Based on these segments, strategies and client contacts are structured to maximize
effectiveness and efficiency. For instance, in the early stage of delinquency, low-exposure/low-risk clients are sent low-cost e-mail/SMS reminders because, typically, they will pay back in a short time and spontaneously (i.e., clients "self-cure"). The RMs deal with such clients mainly through risk mitigation measures to reduce exposure. Figure 29 shows an example of a collection strategy for medium-risk clients.

For high-risk/high-exposure clients, however, the strategies are more intense and characterized by harsher measures, such as fast track to liquidation, frequent contacts, and messages sent, which highlight the increasing seriousness of the situation from a legal standpoint.

If the client is cooperative and willing to pay, but has temporary difficulties, typically an ad hoc payment plan is offered. As part of these payment plans, banks have a broad array of options to customize the plan to a client. First, late payment fees can be waived as an incentive to pay. This is particularly enticing for clients owing small amounts for which late fees can easily represent over 30 percent of the total.

Secondly, the term can be extended either at the same or at different prices. For clients that are willing to pay, better offers can lead to a higher likelihood of full repayment. For example, advanced banks tailor fee waivers, new terms, and prices considering the ability of the SME to repay and the probability that it will pay. As a consequence, best practice banks tend to offer larger discounts for shorter term repayments. Although other banks rarely accept losses on the capital during collection, such behavior ultimately leads to a much lower recovery rate.

Lastly, for more serious situations in which a client is not willing to pay or has structural problems, more radical solutions are required (e.g., liquidation or debt sale).
2.5.2. FACT-BASED DECISION-MAKING/WORK-OUT STRATEGIES

Collecting from SMEs requires a delicate balance. If the problems are temporary, it is in the interest of the bank to support the client with discounts and repayment plans, but if the client is going to default regardless, swift action is necessary to recover as much as possible.

In early delinquency stages, behavioral collection scores describing the likelihood to deteriorate from “early buckets” to “late buckets” (i.e., from a low to a high number of unpaid installments) are used to select the actions that will yield the highest expected value among repayment plans, restructuring, debt sales, and fast track to liquidation.

After the early stages of delinquency, deciding when a restructuring or liquidation is best requires specialized knowledge and robust, fact-based decision models. These models consider financial and business assessments of the client, collateral evaluation, and exposure amount, while providing the likely economic impact of different strategies.

For instance, to evaluate the option to liquidate (and cause the bankruptcy of a client), the model will consider the value of the company’s assets in a distress sale, the legal cost to follow the liquidation procedure, and the cost of waiting until the end of the liquidation procedure (in terms of discounting the cash flow at a later date). In different countries, this assessment will determine very different preferences towards liquidation, debt sale, or debt restructuring. Often, banks do not consider the true cost of not offering substantial restructuring and end up recovering less at the end of long and painful legal procedures.

Particularly for large exposures, advanced economic models are used only as a support for the judgment of highly specialized experts.

Lastly, economic models are also used to assess the value of non-performing portfolios in view of debt sales. These models estimate the expected cash flow from a non-performing portfolio typically using historical data and risk scores, thus providing crucial benchmarks to obtain better prices in debt-sales.

2.5.3. WORK-OUT AND COLLECTION ORGANIZATION

Specialized groups offer banks the best means to most effectively leverage the multiple strategies suggested by the scores and models mentioned in the previous sections.

At a basic level, collection call centers can be very useful for small clients. For small SMEs, banks have found that after three or more unpaid installments, groups of skilled negotiators empowered to concede fee waivers and set-up repayment plans are highly effective.

As the client exposure and the likelihood of default increases, however, the role of specialized groups becomes increasingly important. Best practice banks distinguish themselves by using highly skilled restructuring groups for three types of decisions:

- Modifying terms and conditions for loans and lines of credit for temporary problems;
- Supporting restructuring for structural problems; and
- Triggering liquidation for structural problems deemed unsolvable.

For the restructuring option with the largest SMEs, some banks invest time and resources to help solve structural problems; sometimes they might even go as far as to organize a merger between their client and another company. A restructuring would lead to a review of financing terms (e.g., term structure of the loan), a merger, or an acquisition.

If liquidation is the best option, the legal team is called in. In general, the legal stage requires two specialized groups:

- A small internal legal team, which provides legal advice; and
- A team managing external solicitors and collection agencies, which is tasked with assigning cases and rewarding the performance of the external contractors.
2.5.4. EFFECTIVE EARLY WARNING SYSTEMS

Early warning systems are tools that signal a client’s credit deterioration. Clients are classified into different categories based on their likelihood of default. The typical system segments SMEs into three broad categories:

- Performing: Clients who do not show signs of credit deterioration.
- Watch: Clients who require attention even if payments are still regular; more frequent and in-depth reviews of their situation are necessary. In some cases additional collateral is required.
- Delinquent: Clients that are imminently or already in default and are typically taken over by collections and recovery functions.

Robust early warning systems are developed using statistical methods and require large data sets to develop behavioral scores. For small companies, research has proven that, to predict default, the risk profile of the owner is more important than the declared financial performance. In best practice banks, direct data-feeds using internal credit information and credit bureaus automatically update the information used by the scores.

Triggers, specific situations that alert the bank of a credit deterioration, play an important role in early warning systems. When no statistical analysis is available, a warning system is based on a set of triggers. Triggers are typically correlated with a company’s financial health but can also be influenced by the sector, industry, or general macro-economic events. With respect to the first group, typical triggers are different thresholds of interest coverage, defined as the ratio of the interest to pay on debt and the cash flow available. For example, lower coverage rates or an increase in the percentage of receivables over revenues are alarming signals. During economic crisis, credit becomes riskier and, as a consequence, economic or sector downturns typically trigger portfolio reviews.

Lastly, early warning systems need to be updated and refreshed regularly. In best practice banks, the accuracy of these tools is measured against benchmarks. When their power drops below a safety level, they are rebuilt with new data.

For each category determined by the early warning system, risk mitigation measures must be automatically applied. For performing clients, the only risk mitigation measure typically concerns the frequency with which the clients are re-assessed.

Risk mitigation measures are most important for watch clients. Typical measures include requesting an in-depth review, limiting the use of overdraft, decreasing the exposure to the client, asking for more collateral, changing terms, and re-pricing. The RM can either reduce the credit limit or limit risky products such as overdrafts.

To implement risk mitigation measures, the roles of RMs and collection departments must be unambiguously defined. For non-delinquent clients, RMs should be ultimately responsible for the implementation of these measures and the coordination of involved parties such as credit risk management, portfolio management, credit staff, and the collection department.

2.5.5. SUPPORTED TOOLS & WORKFLOW

Best in class collections are based on high levels of automation and control of performance, and rely on four main sets of tools:

- Workflow systems;
- Automated reporting;
- Performance and operational reporting; and
- Call center automation.

Workflow systems enable the advanced collection strategies mentioned in the previous sections. The most advanced are the so-called “state-based systems,” which assign to each client a “state” which is a description of where an SME client is in the collection process.

A client state or status is defined by multiple criteria (up to 10) including current past due, risk level, reaction to previous contacts, and past actions. The system allows for the automation of specific actions linked to a state
(e.g., send a predefined email after 10 days past due). In this way, low-cost automated bucket strategies can be implemented (e.g., mailing, e-mails, SMS, etc.) as soon as the account comes to a given level of past due.

The best systems combine the ability to manage many client states with high flexibility, so that new states are easy to introduce, and tests for new strategies can be set up easily.

Workflow systems are linked to automated reporting tools. Reporting happens at three different levels:

- Portfolio performance;
- Operational metrics; and
- Staff performance.

Portfolio performance provides real-time monitoring of the expected losses and delinquency metrics for non-performing clients. Delinquency metrics indicate the percentage of clients whose delinquency level (i.e., their past due or number of missed payments) is constant (i.e., paying only new charges but not settling old ones), worsens, or improves (because they are paying off their whole debt).

Advanced management information systems (MIS) track portfolio performance for each segment and product, provide vintage, trend analysis, and provision forecasts. Automated reports can also include dynamic applications in which the user can select filters through which a specific trend or performance metrics can be analyzed at any level of granularity. For instance, the user could specify “very small clients who activated a credit card in 2005,” and a full report will be automatically produced reflecting the filters.

Operational reports are concerned with tracking the operational metrics, usually of a call center. These include the number and duration of calls made and the time spent in between calls. They can also incorporate equivalent information for other channels (e-mail, SMS, mail), allowing a proper costing of each collection activity and identification of possible process bottlenecks.

Staff performance is monitored at individual and team level, with accurate measurement of workload, productivity, and efficiency in recoveries enabling rigorous performance management and internal benchmarking.

Lastly, to optimize their performance, best practice banks automate all the repetitive tasks in collection, particularly in call centers. This includes not only sending automated messages but also dialing phone numbers (through power dialers) and finding client contact information (skip tracing).
3. Implementation of SME Customer Management

To implement best-in-class customer management, banks have to focus on four layers of a pyramid:
- Data management;
- Modeling;
- Technology and tools; and
- Skills and organization requirements.

Figure 30 shows the main elements to implement customer management.

3.1. Data Management

Customer management requires in-depth customer knowledge to identify the best clients, develop pricing tools, and improve salesforce effectiveness. This calls for dedicated SME databases to collect and store client data from many different sources.

There are two distinguishing features of best practices in data management:
- Database sources; and
- Single customer view

3.1.1. DATABASE SOURCES

Although banks have increasing access to a large and diverse set of data sources, only a minority makes use of the full range of available information available.

Figure 31 shows a schematic of the most important sources of data for customer management.

Most banks store information from application data and credit bureaus. Even with respect to these standard sources, best practice banks stand out by collecting data related to both the company and owner, thus greatly increasing their ability to predict future behaviors.

Market data are typically available from central banks or ministries, and include sector information, volume historical trends, and future projections.

Third-party data can include information from other companies that are partnering for commercial initiatives. These can range from raw lists of clients names to extensive information useful to provide a profile of a company. For instance, energy usage could be helpful in developing a profile of an SME client, as it typically relates to the number of employees.
Geo-marketing data are often sold by specialized providers. Increasingly, even in emerging markets, relevant information such as average income of an area, energy consumption, or population density are linked to very granular geographic coordinates via global positioning system. Geo-marketing data can be used to augment prospect lists with information that helps to better target them.

Behavioral data includes transaction, balance, and contact client history collected across all channels (i.e., branches, call centers, Internet) every time there is a client-bank interaction.

Best practice banks also collect client feedback through all of their channels and surveys. The first sources are call centers and branches. IT systems typically allow bank representatives to take notes about client calls and visits. While this is useful for following up on individual cases, these notes have little analytical value. Best practices banks have started to use multiple-choice questionnaires that pop up after a call or a visit. The representative marks the client problem and basic information related to it. In this way, feedback and complaints can be transformed in quantitative information. Best practices banks also use regular surveys to measure client satisfaction, capturing this feedback in a structured way.

Lastly, a database can be enriched with information obtained through analysis. For instance, modeling survey data might provide information about different price sensitivities of client segments, which can be attached to the main database. This applies to other very useful information such as client value, propensity to buy a product, and the importance of product and service features.

3.1.2. SINGLE CUSTOMER VIEW

Collecting and organizing client data from many sources is not sufficient to support customer management tools. Many banks, typically due to acquisitions, rely on different databases for different channels, risk information, and business units. Ultimately, it is not possible to develop applications based on all the information that is theoretically available. In such data environments, some tools cannot be developed and most will underperform.

In order to develop high-performing tools, it is critical to link all the information at customer level in one database and provide a 360° customer view. This is a very resource-intensive task that requires a small, dedicated data management group within the SME unit.

As an example of a 360° customer view, Santander is always integrating all the customer data sources every time it acquires a new bank. These sources include all the information regarding the company, owner information, segment membership, contact history, financial transactions, and analysis-based data such as price sensitivity.
As a consequence, Santander has access to an impressive mass of customer information that can be effectively used to improve marketing campaigns and to provide in real time clients with the products that they will most likely want.

3.2 Modeling

Customer management in SME banking is based on four sets of advanced analytical tools with very broad applications:

- Risk scoring;
- Customer management scoring;
- Value model; and
- Customer preference model.

Each application requires, as a prerequisite, a comprehensive database with a single customer view. Some banks, particularly in emerging markets, manage to create these tools in the form of expert systems. Expert systems are not derived from statistical analysis; they are designed by bank experts based on their experience. As a consequence, they are much less powerful than statistical tools but can provide a useful bridge solution while databases are being set-up.

Best practice banks typically develop these tools in-house and have specialized analytical groups to run analysis, update them regularly, and augment the data sets used. The size of such groups varies, from 5 to over 50 for Capital One/Barclays. However, the qualification and the experience of the senior analysts are always very high, for example, advanced degrees in statistics/business and over 10 years of experience.

3.2.1. Risk Scoring

Scoring algorithms are models that assign a quantitative score to an SME client. The score represents the probability of an event. For example, in a risk score, the event is that a company will default in the next 12 months; in a marketing score, the event is buying a product in the next campaign; and in an attrition score, the event is that the customer will suspend the relationship with the bank in the next 12 months.

The main methodology used to calculate scores is multiple (logistic) regression. This means that regressions are applied to a database where the statistically significant drivers of an SME’s behavior have been identified and weighted by their importance. The final algorithm is an equation that links the drivers to the value of the score.

Risk scores are widely used due to the regulatory requirements of Basel II, which provide strong incentives to use advanced models to estimate the probability of default of clients.

Risk scores can also play an important role in ensuring profitable relationships with small clients. Powerful scores allow a high degree of credit automation, which is crucial to decrease credit processing costs and offer profitably smaller loan sums.

Supported by risk scoring, leading SME banks have extended the authority of relationship managers to approve loans across all levels of seniority. This discretionary authority is modulated by risk levels — i.e., lower authority for higher risk clients — as well as by collateral, such as higher authority when collateral is present.

A powerful risk score can identify effectively groups of clients that are very likely to default. In best practice models, the riskiest 10 percent of clients have more than five times the average probability to default. Conversely, dysfunctional predictive scores not only fail to identify “bad loans,” but are also not even used by credit analysts.

The power of a score can be measured, and depends on the quality and richness of client data. In data poor environments, where scores are not powerful, it is best to rely more on manual assessment, even if this approach tends to be much more expensive.

To maintain powerful scores, best practice banks validate and refresh them every six months. Validating means applying statistical tests to verify that a model is still good at predicting SME behavior; refreshing means estimating the importance of the score drivers using new data.
The most powerful scores, called behavioral scores, leverage information that includes client behavior, such as recent customer transactions and balances.

Scores require and benefit from multiple sources of data. Figure 32 shows the typical source of information for best practice SMEs. The percentages indicate the importance of each type of data.

For medium-sized enterprises, information such as business financials, cash flow, industry trends, and business life-cycle greatly enhance the credit assessment. Conversely, for small businesses the creditworthiness of the business owner is the most important feature. For this reason, best practices combine owner and business information in their scores.

Lastly, multiple scores are often used to better differentiate risk profiles across different segments, products, and client credit status. For instance, from a risk perspective, very small businesses tend to behave very differently than medium-sized ones, thus requiring different scores. By the same token, risk scores for delinquent clients are very different from application scores for new client application or monitoring scores. Therefore, estimating different scores is very useful.

Best practice banks typically maintain over 20 SME specific scores and use them as basis for both credit and marketing decisions.

3.2.2. CUSTOMER MANAGEMENT SCORING

Risk scores and other scoring algorithms used for different purposes are identical with respect to their requirements (data sources, maintenance, skills to develop them) and the methodology used to develop them. Customer management scoring includes a broad taxonomy of scores:

- Marketing scores;
- Activation scores;
- Retention/attrition scores; and
- Prepayment scores.

Best practice banks use customer management scores extensively to coordinate the corresponding actions through the organization. For example, if a retention campaign is launched at the same time as a marketing campaign, each client will be prioritized across different scores so that he or she will be contacted only for the most relevant action.

Marketing scores model the probability that a client will purchase a given product, and as such, they allow a cost-effective deployment of marketing expenditures. By excluding leads with a low marketing score for a certain product, the bank can realize significant cost savings. Best practice banks use marketing scores extensively and develop specific scores for different products. A special type of marketing score is that used to activate real time offers, for instance as a reaction to a client clicking on a banner. These scores tend to be simpler from an analytical standpoint (i.e., they will include five to 10 triggers as opposed to more than 20 for most other types), but they require a real-time data feed to work.

Activation scores signal when a client should be activated. These are the least used scores, since advanced banks usually implement automated marketing actions when a client has not been active for a while (on average, three months).
Retention or attrition scores are tools for focusing the attention of relationship managers on those clients most at risk of defecting to competitors. Retention scores are often a pragmatic mix of perceptions and tested hypotheses. Subjective perceptions by relationship managers of recent customer behavior are a key input. The scores are then augmented by the major drivers of customer churn (e.g., above-market pricing, repeated changes of relationship manager), which can be monitored by a customer relationship management CRM system. However, mainly due to the lack of systematic data gathering on early churn signals, they often become qualitative tools.

Prepayment scores predict the likelihood that a customer will repay a loan in full before the end of its term. Banks are interested in this situation because shortening the life of a loan reduces total interest paid and profitability. Loan prepayments are mainly due to the possibility to refinance at better terms, which happens primarily to low risk clients when interest rates decline. As a consequence, prepayment scores are often based on risk data and interest rate changes. Best practice banks try to prevent prepayments, selecting the clients with the highest propensity to prepay and making them better offers.

3.2.3. VALUE MODELS

Value models are financial and behavioral models that estimate the expected NPV (net present value) of a client across its life. They are the most advanced models used in SME banking and are based on different components covering marketing, risk, retention/prepayment scores, and wallet sizing. Each component can be more or less sophisticated.

Figure 33 provides a representation of an advanced value model.

The first step of the Value Model is to estimate the potential annual revenue for a bank from the financial activities of a company. This method is called “wallet sizing,” and it is the main building block on the revenue side of value models. Wallet sizing estimates the maximum yearly potential value of a client.
As Figure 34 shows, as wallet sizing is based on firm revenue, the client’s potential total expenses are calculated through the application of an overall “wallet factor.” The example above is taken from a wallet sizing model used by an SME bank in the Cooperation Council for the Arab States of the Gulf GCC region. The client is a construction company with annual sales of USD 8 million.

The next step is finding the companies that are spending on financial products. This is difficult and relies typically on the SME’s specific size and sector. The model, through the “wallet factor,” relates the financial spending of the company to its annual turnover. The factor reflects the different spending patterns in financial products by the size of the SME. Small firms usually spend a higher share of their total revenues than clients with higher turnover.

Once the financial spending of the company is calculated, a corresponding potential profit can be found. This depends mainly on the client’s product mix. As the product mix typically depends on the sector in which the SME operates in, sector-specific product mixes can be found by a regression analysis on SME data.

In the example, the construction sector in GCC is not capital intensive and hence has a relatively small factor of 1.2, compared to a value of 6.4 in the most capital intensive sector of Power and Utilities.

Wallet sizing allows banks to shed light on the success of the bank’s SME offer. By matching the current revenue that the bank achieves from a client or a segment with its full potential, the bank obtains an indication of the share of total business (“share of wallet”) it holds.

Moreover, comparing the revenue split between products and services of the full potential provides an indication of where untapped potential lies.

On the cost side, there are two main items, generic cost data (cost to serve and acquisition costs), and risk costs:

- Cost to serve captures allocated fixed costs and the costs of using specific services. Acquisition costs are the costs incurred in acquiring the client, such as the cost of marketing campaigns.
- Risk costs consider the potential credit losses from a product. Advanced players also consider the cost of the capital that the bank has to hold when lending. This will account for the so-called “unexpected losses,” those losses that are very unlikely to occur (e.g., probability of 0.1 percent in 1 year).

Costs and revenues are added to estimate yearly cash flows. Advanced players develop value models projecting profit over a 5-year horizon. For each year, the projection of cash flow is weighted with the likelihood of selling new products (cross-selling model) and by the probability of losing a client (client attrition model). This provides for each client a potential value across its relationship with the bank.

Value models are the analytical engines for optimal decision making on marketing, sales management, credit approval, and pricing decisions. Applied at segment level as simulation tools, value models can select the optimal product design for a specific segment.

**FIGURE 34 EXAMPLE OF WALLET SIZING APPLICATION**

*Wallet sizing methodology*

**DEFINITION REVENUE POTENTIAL:**
Sum of all achievable interest margins and fee surpluses p.a. before operational cost

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>TURNOVER [USD m]</th>
<th>“WALLET FACTOR”</th>
<th>INDUSTRY FACTOR</th>
<th>TOTAL EST. WALLET [USD ‘000]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client A</td>
<td>8</td>
<td>0.9%</td>
<td>1.2</td>
<td>~86</td>
</tr>
</tbody>
</table>
In marketing campaigns, once the next product push has been decided, the models can provide a list of potential clients and the best channel of contact in order to optimize the return from the campaign. In addition, when used on individual customers, they can provide the sales force with the best product suggestion for any customer interaction.

### 3.2.4. CUSTOMER PREFERENCE MODELS

Customer management is strongly enhanced by the knowledge of client attitudes, unmet needs, and preferences. Best practice banks effectively complement insights from internal bank data with regular surveys on client preferences.

Understanding customer preferences requires a quantification of the importance of different attributes. An attribute is any characteristic of services, products and their pricing. It can be the presence or absence of a fee, the price of a loan, or the option to break a term deposit without fees. Only the most important preferences are used when a client decides to purchase a product or increase its share of business with a bank.

Therefore, at a basic level, banks should conduct surveys asking customers to rate the importance of different services, product features, and price levels.

Advanced players use conjoint analysis to obtain this information. Conjoint analysis is a statistical approach to assess the relative importance of elements of a value proposition. It requires a tailor-made survey in which respondents are asked to choose what they would like to select from among different product combinations. For instance, a product might have a higher price but it could include free insurance coverage. Using statistical methods, many product combinations are selected and presented to respondents to be chosen or rated. The resulting data are analyzed with a statistical model, and the relative importance of each element is estimated. Ultimately, a vastly improved and accurate customer management program is the reward for using these advanced models.

A conjoint model can be used then to simulate the market share a bank could gain by manipulating elements of the value proposition, for instance by lowering the price of a loan by one percent. In recent years, an even more advanced approach, discrete choice modeling, has allowed banks to test the power of different brands and simulate cannibalization effects among different players.

The results of customer preference models are parameters measuring the importance of a product attribute for a client. Since these models are often used for segments of the client base, best practice banks attach these analysis-based data to their database to simulate with the entire customer base the impact of different prices and value propositions.

### 3.3. Technology and Tools — Customer Relationship Management Systems

Customer management best practices make extensive use of customer relationship management technology and tools to enhance their capabilities.

A unique CRM database providing a single customer view of all the information constitutes the foundation for most applications. Aside from the automated tools mentioned for collection in call centers and for reporting, supporting marketing and front-end agents are the other major areas of CRM applications that can be enhanced through:

- Marketing campaign planning tools; and
- Sales management tools and next best product identification.

**Marketing Campaign Planning Tools**

Marketing campaign planning tools have very different level of sophistications and features, but include four critical functionalities:

- First, campaigns can be set up on a calendar plan detailing the dates, the number of clients to be contacted, their segment, the offer, the communication they will receive, and the expected results
- Second, strong campaign planning tools can forecast an expected budget and a likely return on marketing
investment. Once the campaign is set up, the selected clients will be automatically contacted through the chosen channel, or their names will be sent to the sales force.

- Third, the systems support splitting a campaign in many segments and setting up complex tests easily with the capability to modify them even after the campaign has started.

- Finally, after launch the results are tracked in real time, both with respect to operational metrics (e.g., number of clients calling) as well as financial results (e.g., revenue and return of investment). Automated reports are produced and their templates can be easily customized to the need of the marketing department.

Aside from this more common campaign management tools, other real-time event-based applications have been recently emerging in the SME space. These tools link client data to real-time sales initiatives, such as direct marketing messages to the client. For instance, a client clicking on a frequently asked question relating to insurance might be sent an e-mail with different insurance-related bundles.

**Sales Management Tools and Next Best Product Identification**

Sales management tools represent the core support tools for relationship managers and sales representatives. They assist in setting the commercial agenda and monitoring client interactions. Using a value model as a decision engine, these tools can provide RMs with a recommendation of the next best offer for each individual client. The offer is detailed to the level of product features, price and, for an experienced RM, a band of negotiation within which the employee can decide to customize further the offer based on the interaction with the client. This functionality is typically called a “next best product” tool.

Sales management tools also provide client priority lists that can be linked to the RM agenda. For each client, the relationship manager will be provided not only with a priority level but also with the expected value from the relationship. Moreover, depending on its value, each client is assigned a channel and a number of contacts per year.

Once these decisions are defined, the system will update the agenda of the RM by directly suggesting which clients to contact and when. After a client contact, the RM will need to input the outcome of the interaction in the system; in this way the agenda becomes both an instrument to track that the RMs are following up on the suggested actions and a means of measuring their performance.

Lastly, CRM applications need to provide client data access to RMs and other front-end staff. The best systems use graphical interfaces with point-and-click features and interactive charts that are studied to summarize a client situation in the most intuitive way. Increasingly, these applications are tailored not only to work in branches on workstations but also to support agents outside branches using tablets and mobiles.

Introducing these tools always requires a phased approach, which must start with an analysis of the status quo of data availability and of sales and communications processes.

The most sophisticated tools generally require rich and high-quality datasets, so the typical implementation sequence is to improve data quality and then gradually introduce applications.

### 3.4 Skills and Organization Requirements

In order to support effective SME customer management, banks need the appropriate organizational set-up and specialized skills. Two elements are distinctive of best practices:

- A customer management unit; and
- Performance management.

#### 3.4.1. CUSTOMER MANAGEMENT UNIT

The SME unit must contain a dedicated customer management unit whose focus is supporting SME banking through client acquisition, cross-selling, retention, and collection. The customer management group ensures...
that, throughout all the key moments of the customer lifecycle, the bank has a single point of ownership. The key tasks of a customer management unit include:

- Development and implementation of specific SME reporting;
- Development and updating of customer segmentation and profitability analyses;
- Development of advanced analytical models such as pricing model, scoring, and value models;
- Data collection and maintenance, executed by a dedicated data maintenance group;
- Monitoring of performance in key product processes, measuring quality and time of delivery, such as the duration of the credit approval processes;
- Overseeing qualitative and quantitative customer research;
- Enhancement of product propositions, especially simplification of product portfolios and their key underlying processes;
- Continuous improvement of processes and products through test-and-learn methods; and
- Coordination across the organization in order to maximize cross-selling with personal banking products, managing customer referrals from personal banking and corporate banking, and alignment with risk management on underwriting policies.

Banks with no independent customer management unit tend to give low importance to intelligence tasks for SME. In fact, SMEs frequently end up being served by units for which they are not a priority.

Figure 35 shows an example of a typical customer management group.

The analytic group, counting seven roles/people (including its head), develops tools such as value models and runs all the analysis. The data management group ensures that data sets are maintained and organized at the customer level. The process and product improvement unit controls and decides upon the implementation of new processes and products. The customer management head is the ambassador of SME customer management within the organization and is responsible for the cross-unit coordination.

**FIGURE 35 EXAMPLE OF TYPICAL SME CUSTOMER INTELLIGENCE GROUP**

*Customer management group in SME banking*
3.4.2. PERFORMANCE MANAGEMENT

SME banking requires skilled employees who are incentivized and trained specifically to serve SMEs. Managing SME bankers’ performance is thus supported by two pillars:

- Selection and training; and
- Incentives.

Selection and Training

Excelling in customer management requires a combination of many skills and competencies. On one side, strong relational skills are needed to gain trust and be accepted as advisors by the client. On the other, the technical knowledge to serve SMEs extends above and beyond standard credit analysis to include in-depth knowledge of the broader business challenges of their clients. As a consequence, selecting and training dedicated SME bankers is essential.

Traditional selection criteria for bankers, such as industry expertise, technical competence, and product knowledge, should be complemented by attention to interpersonal skills.

Best practice banks have pushed the envelope in this direction. Notably, they hire specifically for SME banking, considering not only the competencies of the potential staff members, but also a clear interest in SMEs and getting involved in the community.

A long-term training plan is critical for all client-facing staff, including call center representatives. Moreover, soft skills training should not be limited to RMs but should be extended to all other client-facing staff, such as customer complaint management and call center agents.

Figure 36 illustrates the soft skill training scorecard in a major SME bank.

Best practice banks use e-learning tools extensively for staff educational and compliance programs. Training classes are mandatory and active participation is tracked and reflected as a determinant of remuneration.

In best practice banks, RM training is a mix of knowledge of SME sectors, financial products, technical expertise for using analytical support tools, and strong soft skills. RMs need to be specialized and have an in-depth understanding of the challenges of SME businesses. This includes knowing the industry, understanding the link with the suppliers, and being involved with SME associations. RMs are encouraged to be involved with the community in order to be seen as long-term partners for their clients.

Lastly, specific training for specialized SME advisors is also growing in importance. These training courses should form part of a continuous professional development plan to form true SME business consultants. To this extent, banks like TEB in Turkey and DBS in Singapore are at the forefront. Both banks have specialized training programs for their best RMs to enable them to offer consulting services on non-financial topics such as marketing and business planning to their clients.

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<th>CLIENT SERVICE</th>
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<tbody>
<tr>
<td>Maintain records relating to customer service</td>
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<tr>
<td>Organize work pattern to respond to the needs of SME customers</td>
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<td>Make use of networks</td>
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<table>
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<tr>
<th>CUSTOMER COMMUNICATIONS</th>
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<tbody>
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<td>Select information for communication to customers</td>
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<tr>
<td>Facilitate flow of organization between the bank and SME customers</td>
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<td>Adapt methods of communication to the client</td>
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<th>RELATIONSHIP BUILDING</th>
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<td>Respond to the needs and feelings expressed by the customer</td>
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<td>Present positive personal image to client</td>
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<td>Balance the needs and interest of customer and bank</td>
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<th>PROBLEM SOLVING</th>
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<td>Identify and interpret problems affecting customer</td>
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<td>Generate solutions on behalf of customers</td>
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<td>Take action to deliver solutions</td>
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<th>CONSTANT IMPROVEMENT</th>
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<td>Obtain and use feedback from customer</td>
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<td>Communicate patterns and trends in customer service within the bank</td>
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<td>Contribute to the evaluation of changes to improve service to customer</td>
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DBS Bank — Partner for the business community

DBS Bank was established in 1968 as the Development Bank of Singapore. With more than 18,000 employees and over 200 branches, headquartered and listed in Singapore, DBS is a market leader in Singapore with over four million customers and a growing presence in the three key Asian axes of growth, namely, Greater China, Southeast Asia, and South Asia. The bank’s strong capital position, as well as “AA-” and “Aa1” credit ratings that are among the highest in the Asia-Pacific region, earned it Global Finance’s “Safest Bank in Asia” accolade for four consecutive years, from 2009 to 2012.

Its primary operations are in Singapore and Hong Kong, SAR, China where DBS is among the leading retail and SME banks. In 2009, at the height of the financial crisis, DBS supported government guaranteed lending programs to provide financing to SMEs in Singapore. In 2011, it introduced special banking services for start-up companies.

DBS Bank realized that building strong and sustainable relationships with customers was key to increasing market penetration, along with carefully monitoring SME risk. To build strong relationships, DBS focuses on its relationship managers (RMs) and guides them to become business partners to their clients. Figure 37 represents DBS Bank’s approach to SME customers.

DBS cultivates relationships with larger SME customers with comprehensive banking needs through dedicated RMs, while providing multiple touch-points (branch, call center, and internet banking) for customers with simpler needs. This approach ensures that customers’ needs are met regardless of their size. DBS selects and trains RMs who often possess in-depth industry and market knowledge. Supported through continual training enrichment on credit, product, financial, and selling skills, the RMs develop in-depth understanding of the sectors where SMEs are present, empowering them to become effective advisers.

RMs position themselves as business partners instead of ‘product pushers’, which orientates them to develop long-term relationships with their clients and help the SMEs grow. RMs are equipped with the right product suite for each customer segment, product specialists who bring specialized expertise in their respective areas, strong partnership with support functions, and credit risk policies / processes specifically tailored to SMEs. Their performance is regularly and closely monitored to ensure optimum achievement and to allow team leaders to nurture RMs who need mentoring.

**FIGURE 37 DBS BANK’S MULTI-LEVEL APPROACH TO REACH SME CUSTOMERS**

*Multi-level approach to reach SME customers*
DBS reaches out to the SME communities via Enterprise Banking Centers (EBCs) in several locations in Singapore and Hong Kong, SAR, China. Located right in the heart of SME business clusters, these EBCs allow customers to interact with DBS RMs more conveniently. DBS also fosters ties with SME customers through networking or social events and seminars, which help increase their loyalty towards DBS. The bank also cooperates with industry/trade associations and government enterprise agencies such as SPRING Singapore to further help SMEs advance.

An important pillar in DBS’ strategy is building Asian connectivity. Given its strong presence across countries in Asia, DBS enables customers with multi-country operations to effectively access its banking services, which is in line with its commitment to long-term partnership with SME customers which aspire to expand overseas.

**FIGURE 38 LESSONS LEARNED FROM DBS BANK**

- **Develop knowledgeable relationship managers** — DBS selects and trains SME RMs to become competent advisers and trusted partners for its customers.

- **Reaching out to the community** — DBS leverages its Enterprise Banking Centers as well as cooperation with industry associations and government bodies to better serve and grow SME customers.

- **Asian Connectivity** — DBS creates seamless connection and banking services for SME

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**Incentives**

Customer management needs to be reinforced by incentives. Best practice banks incentivize staff by following some key rules.

The incentives should have a clear link to a value metric based on a limited (maximum five) set of elements that are well defined and easy to understand.

The choice of elements should reflect both short-term profit impact and long-term sustainability. As a consequence, the metrics typically include generated revenue, risk (i.e., non-performing loans levels), and customer satisfaction (i.e., performance scores for the long term).

Best practice banks typically have up to 30 percent of variable compensation for front-office staff. Individual performance must be assigned the highest priority, with an element of support for cross-unit referrals.

Santander, a best practice bank profiled above, uses an incentive scheme for RMs that is based on revenue and non-performing-loans (NPLs) and is consistent with a breakdown of overall targets from region to individual objectives. Incentives are based on the potential value of the area covered and the experience of the RM. A percentage of the overall regional target is assigned as a benchmark against which to measure performance.

Other highly successful SME banks focus on integrating measures of customer satisfaction in their scorecard. This has been applied both by very large institutions such as Standard Chartered and small innovative ones such as Metro Bank in the UK.

Lastly, incentives should also include non-monetary rewards. In best practice banks, top performers are selected for fast-track training and to become SME consultants. This fosters both short-term sales and a long-term commitment to the employer.