LEADING TRENDS IN CRM

ciab FEBRABAN

McKinsey&Company

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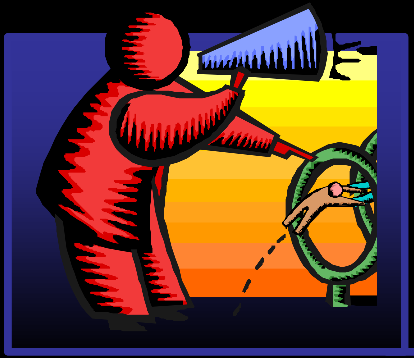
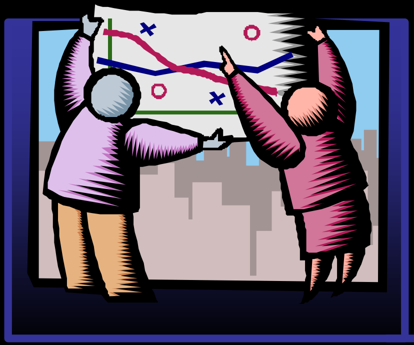
Business Technology Office Latin America
June 13, 2003

THREE TOPICS FOR TODAY



CRM: Hype vs. reality



Winners are addressing three core trends

Key actions to accelerate impact

YEAR 2000 CRM CHALLENGES…

- **Real-time personalization**
- **Limitless customization**
- **1-to-1 relationships**
- **Immediate, multi-channel interactions**
- **Automated marketing campaigns**
- **End of Bricks-and-Mortar**

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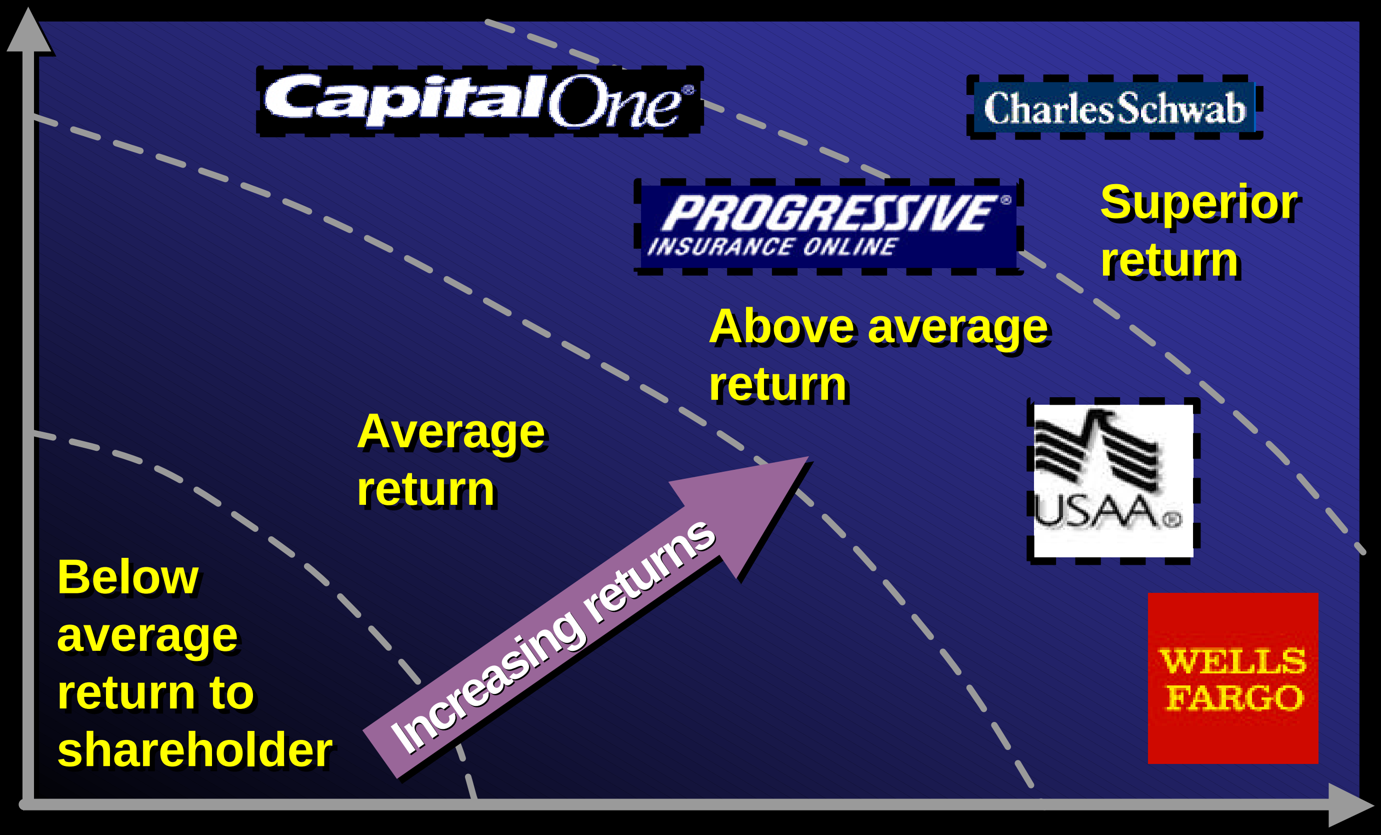
… AND YEAR 2003 CRM REALITIES

- Real-time personalization → Recognition and tailored offerings
- Limitless customization → Bounded flexibility
- 1-to-1 relationships → Segment-based marketing
- Immediate, multi-channel interactions → 24-hour response times
- Automated marketing campaigns → Tech-facilitated marketing
- End of Bricks-and-Mortar → Multi-channel (bricks and mortar alive and well)

CRM DRIVING SUPERIOR RETURNS FOR LEADING FINANCIAL PLAYERS


Capital One
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PROGRESSIVE INSURANCE ONLINE
Superior return
Above average return
USAA
Average return
Below average return to shareholder
Increasing returns
WELLS FARGO

Customer value management

- Segmentation
- Customer lifetime value
- Behavior/ propensity modeling

Customer experience management

- Branch sales force automation
- Web site experience management
- Call center optimization

WHAT SEPARATED HYPE FROM REALITY?

Limited consumer alignment

- Overly focused on traffic versus value
- Unrealistic expectations for behavior change

Large learning curve

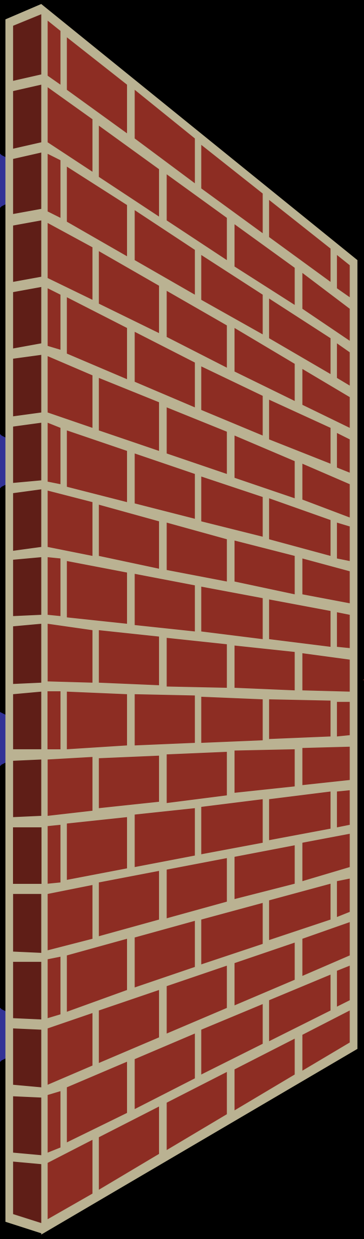
- Test and learn takes time
- Few skilled resources to lead effort

Overwhelming amount of data

- Massive amounts of channel/product log data
- Complex linkages to offline data sources

Challenging execution

- Over-invested in tech, vs. people and processes
- Much more time and resources than planned



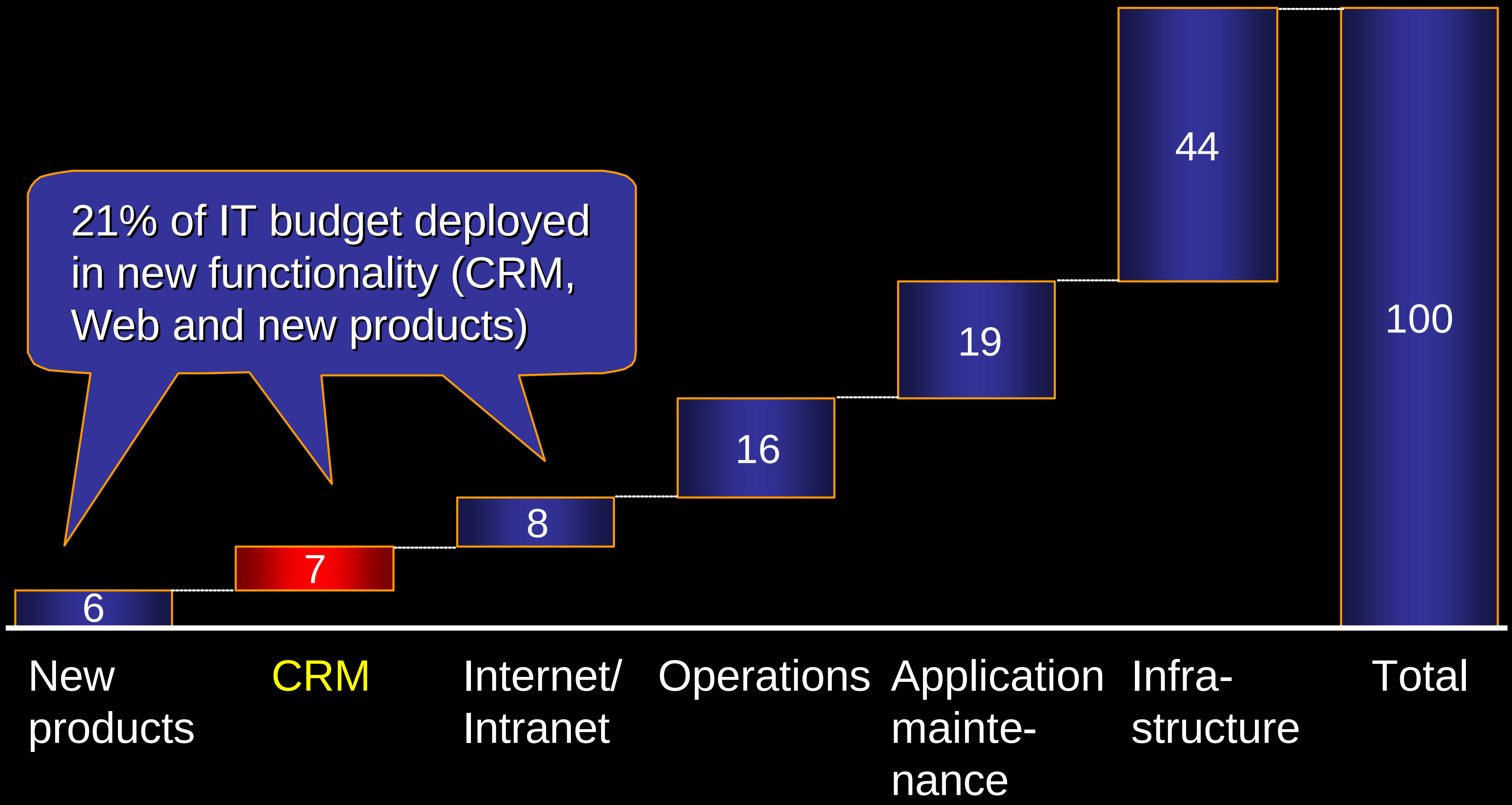
… AT THE SAME TIME, THE CRM BAR CONTINUES TO RISE FOR IMPACT

- **Expectations for tailored interactions and content more realistic and needed**
- **Critical to secure relevant customer pools**
- **Limited funds for technology spend, particularly as recession concern continue on a global basis**

IT PROJECT PORTFOLIO BREAKDOWN

Percent of spend, 2002 (as of 11/7)

DISGUISED US EXAMPLE

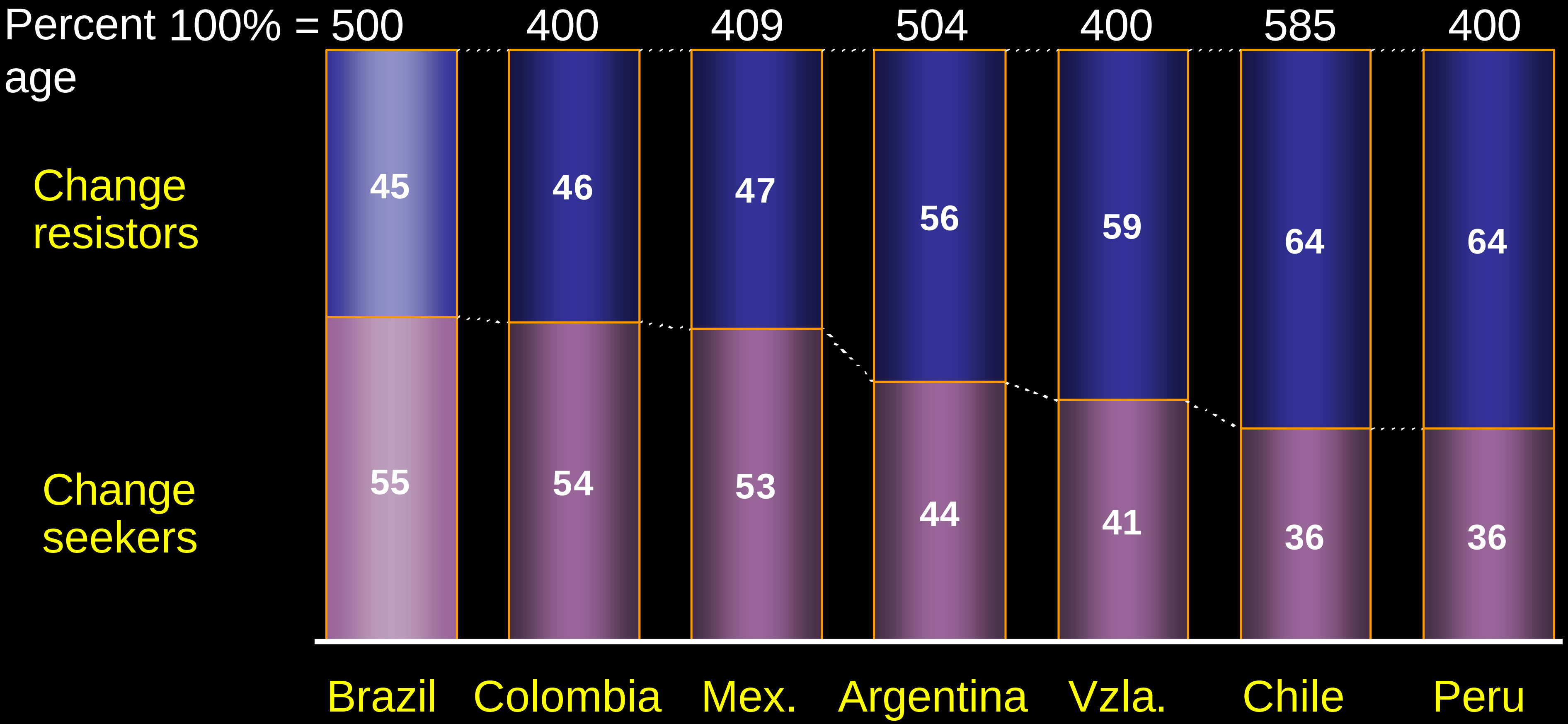


21% of IT budget deployed in new functionality (CRM, Web and new products)

Source: McKinsey analysis

LOCALLY, CUSTOMER SEGMENTS SEEKING CHANGE ARE A MAJORITY…

N=3,198

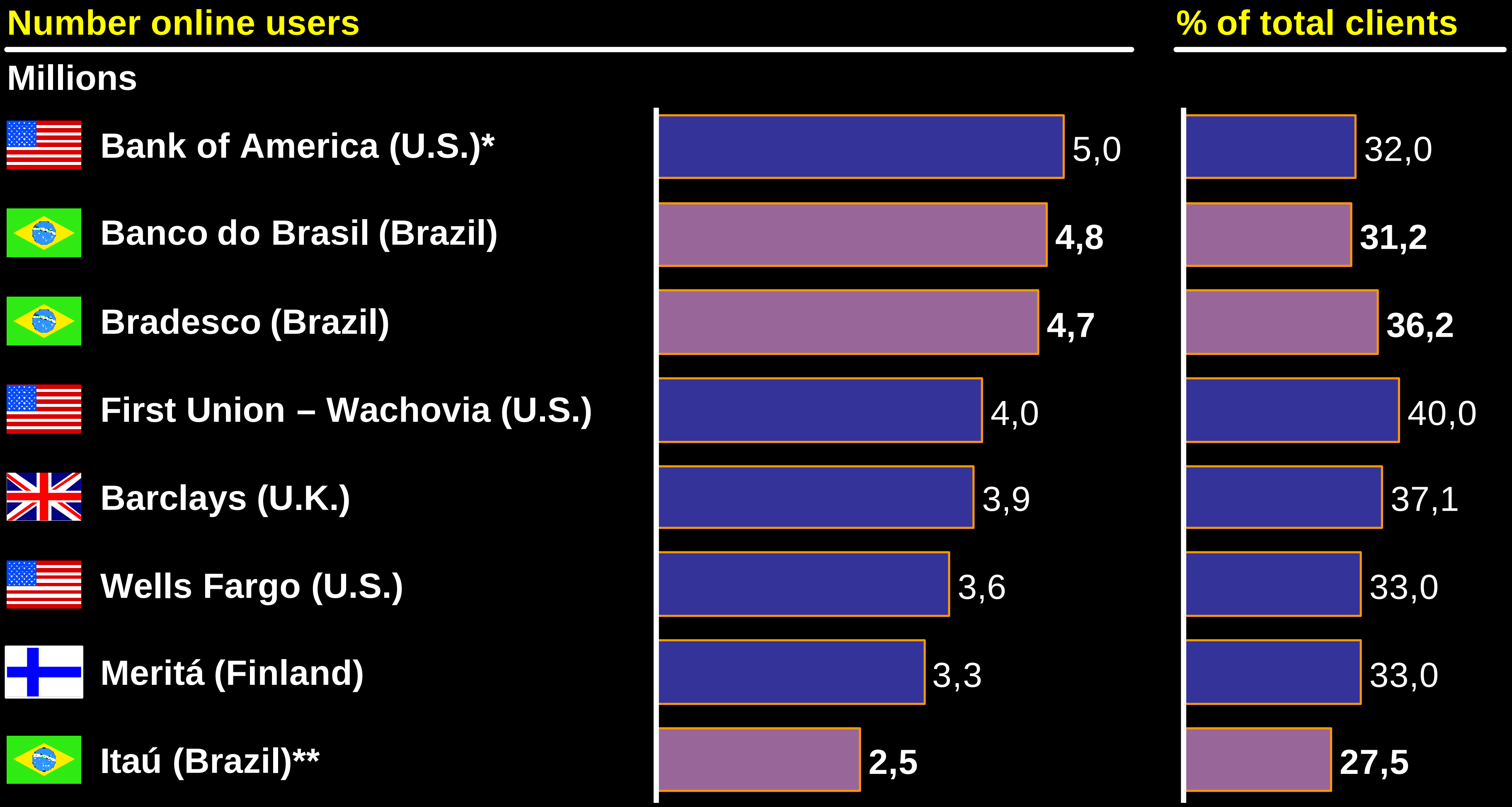


McKinsey&Company

Source: McKinsey's proprietary PFS Survey (based on high & middle income groups)

… AND LOCAL BANKS CONTINUE TO DISPLAY IMPRESSIVE WEB PRESENCE…

December – 2002



* Figures for 1Q03

** Estimate

*** Figures for 3Q02

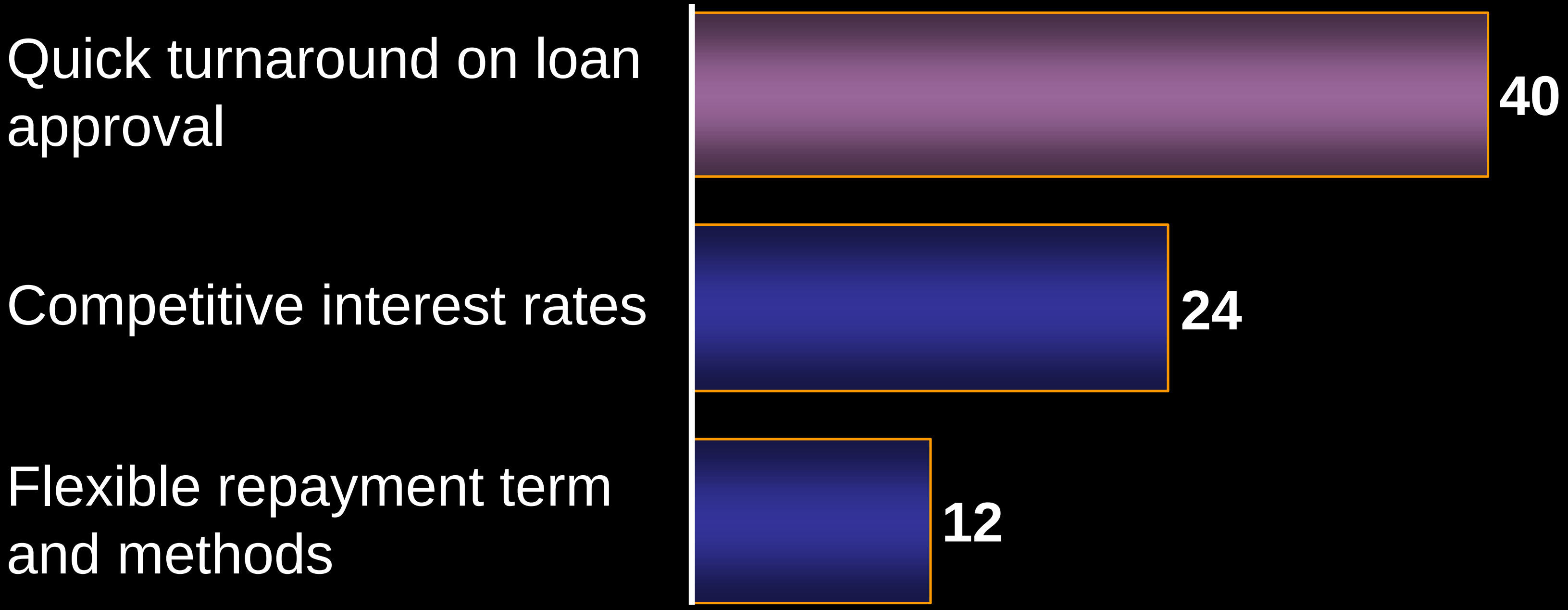
Source: Annual reports; company presentation; broker report; press clippings

WITH SIZABLE SEGMENTS SEEKING A HOLISTIC OFFER EXPERIENCE

Top 3 reasons for choosing specific product - Brazil

Percent of product holders

Personal loan example – High& middle income group



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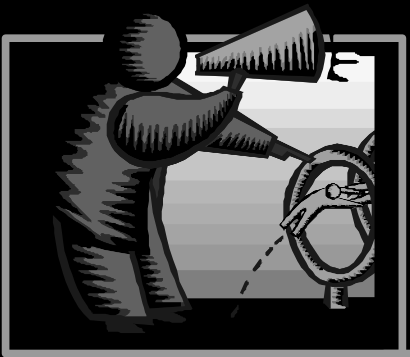
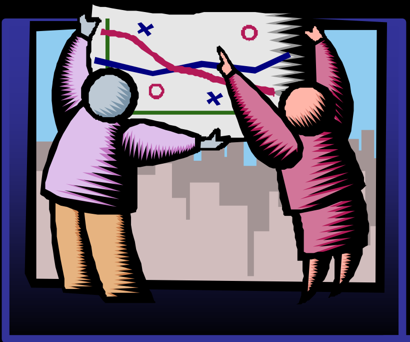


CRM: Hype vs. reality



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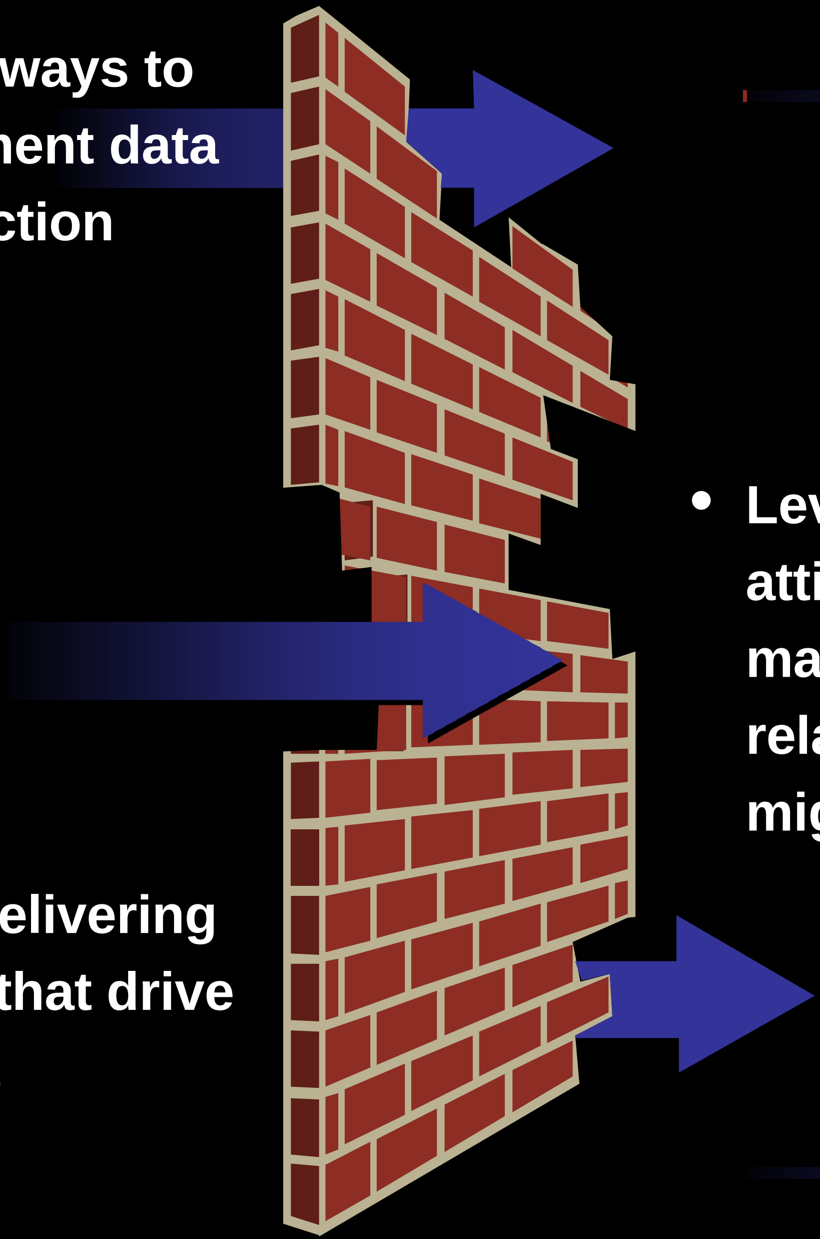
Key actions to accelerate impact

KEY TRENDS OF SUCCESSFUL CRM



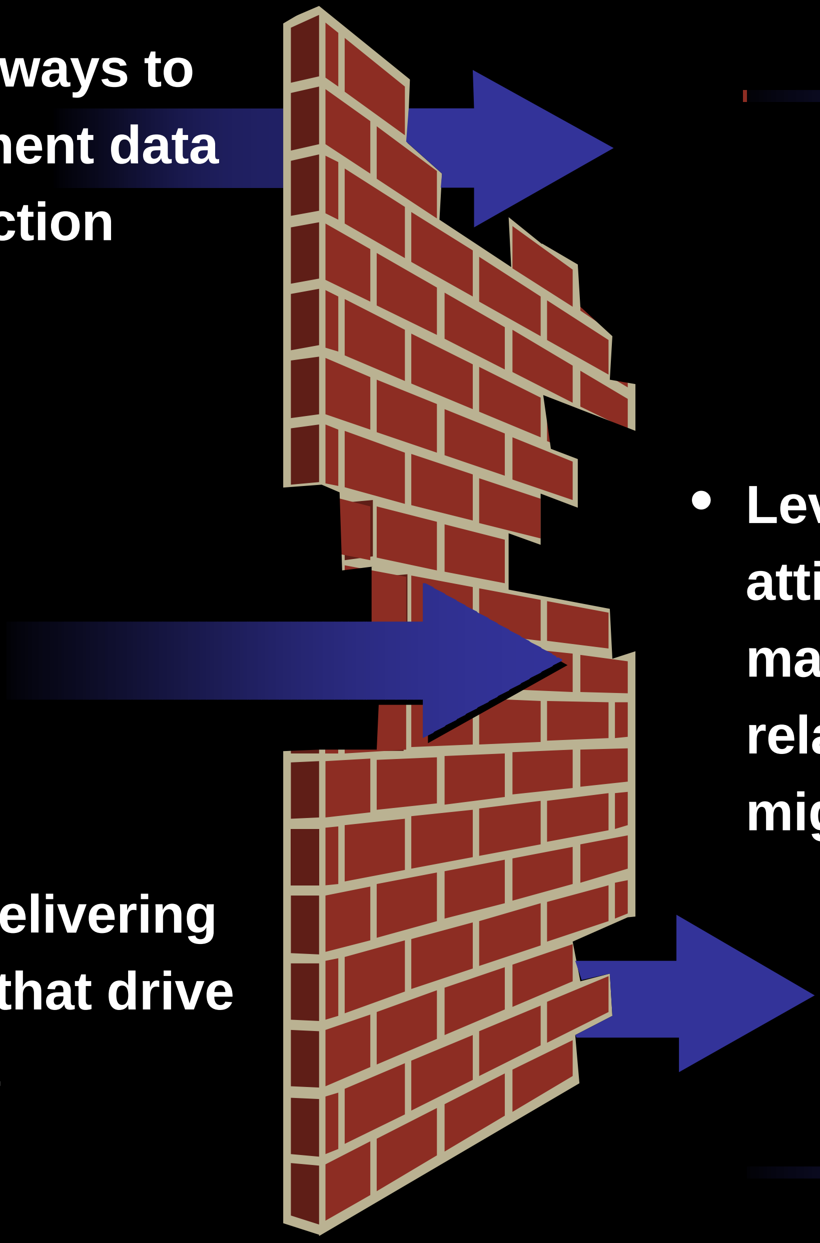
- **Find innovative ways to gather key segment data based on interaction**

- **Build CRM by incrementally delivering targeted offers that drive results and test capabilities**

- **Leverage consumer attitudinal profiles to manage customer relationships and value migration**

KEY TRENDS OF SUCCESSFUL CRM

- Find innovative ways to gather key segment data based on interaction



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KEY TRENDS OF SUCCESSFUL CRM

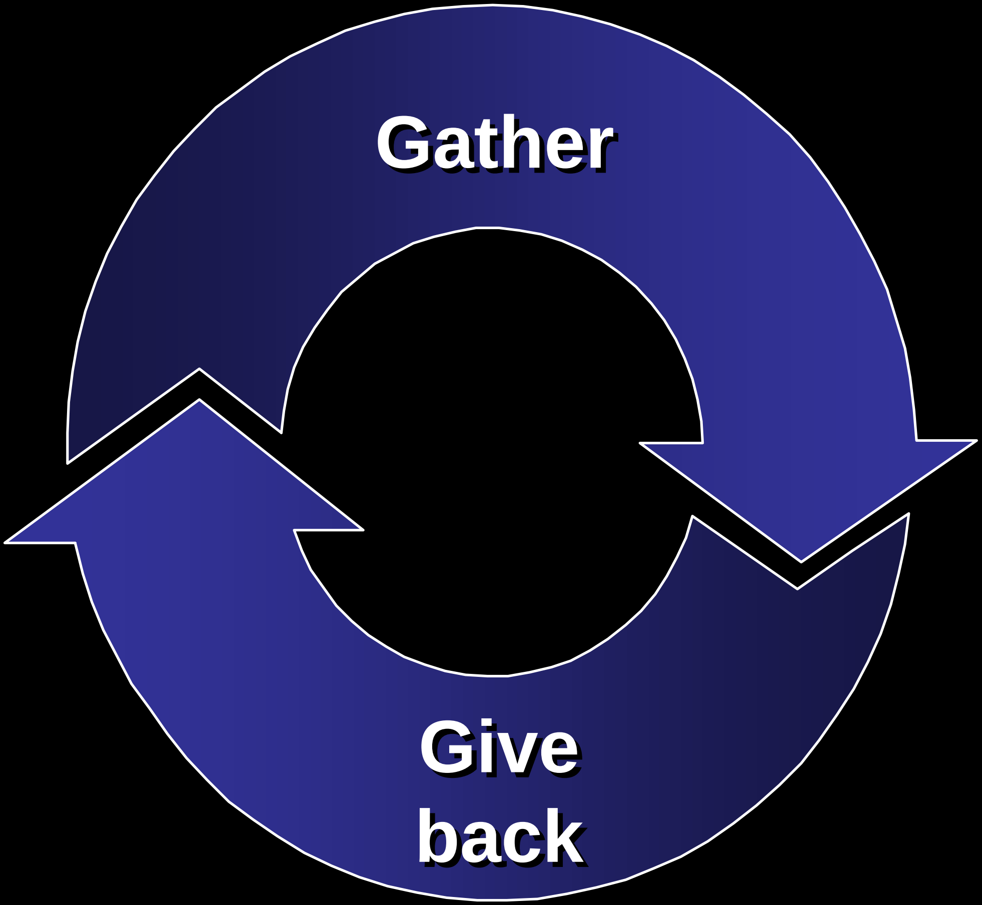
Using CRM to drive value

- **Find innovative ways to gather key segment data based on interaction**
- Leverage consumer attitudinal profiles to manage customer relationship and value migration
- Build CRM by incrementally delivering targeted offers that drive results and test capabilities

Key Levers

- **Leverage interaction data**
- **Personalized environment**
- **Lock-in by tailored pricing**

GET BETTER DATA BY USING IT

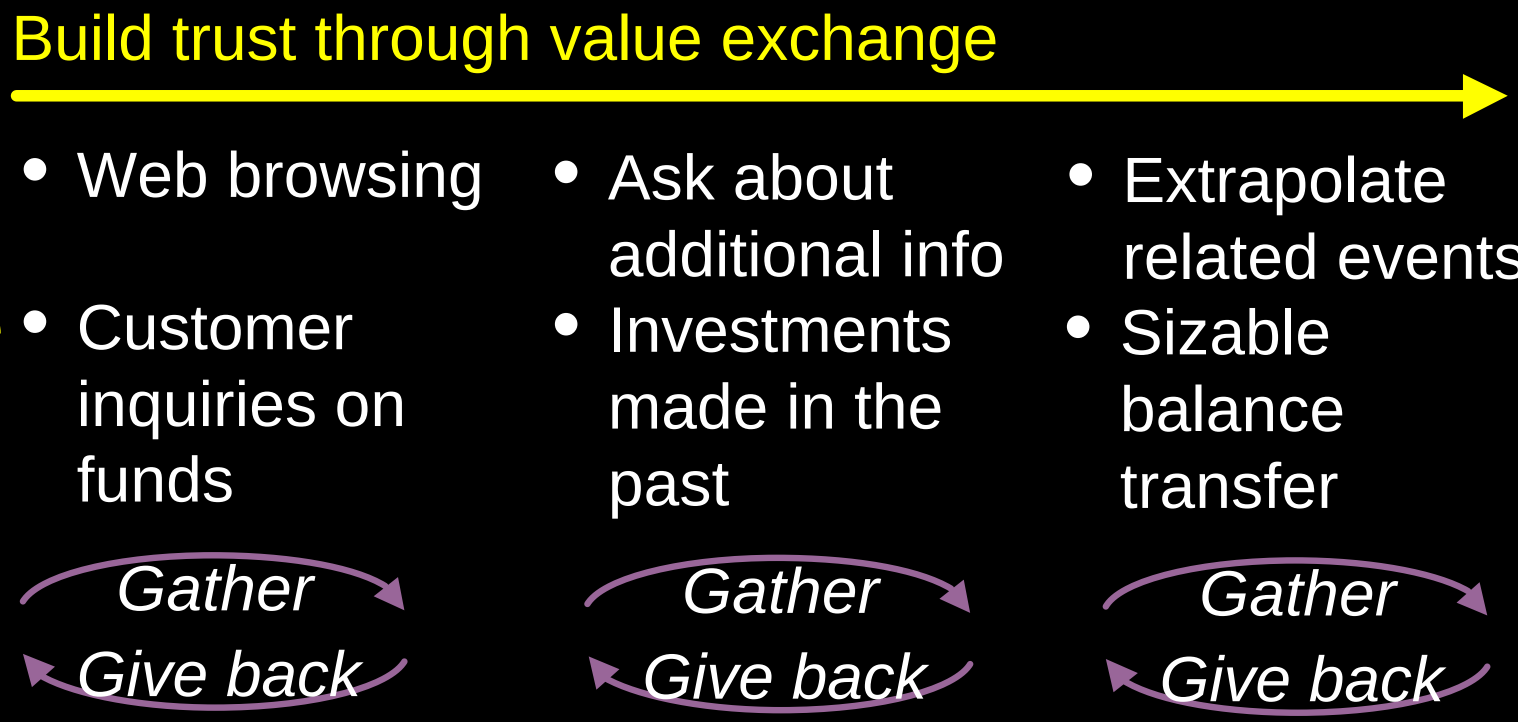


Need to exchange value with customers to encourage further openness and trust, e.g.

- Channel usage patterns
- Interactive configuration tools
- Drive segment interaction approach and pricing

SEQUENCING DATA COLLECTION

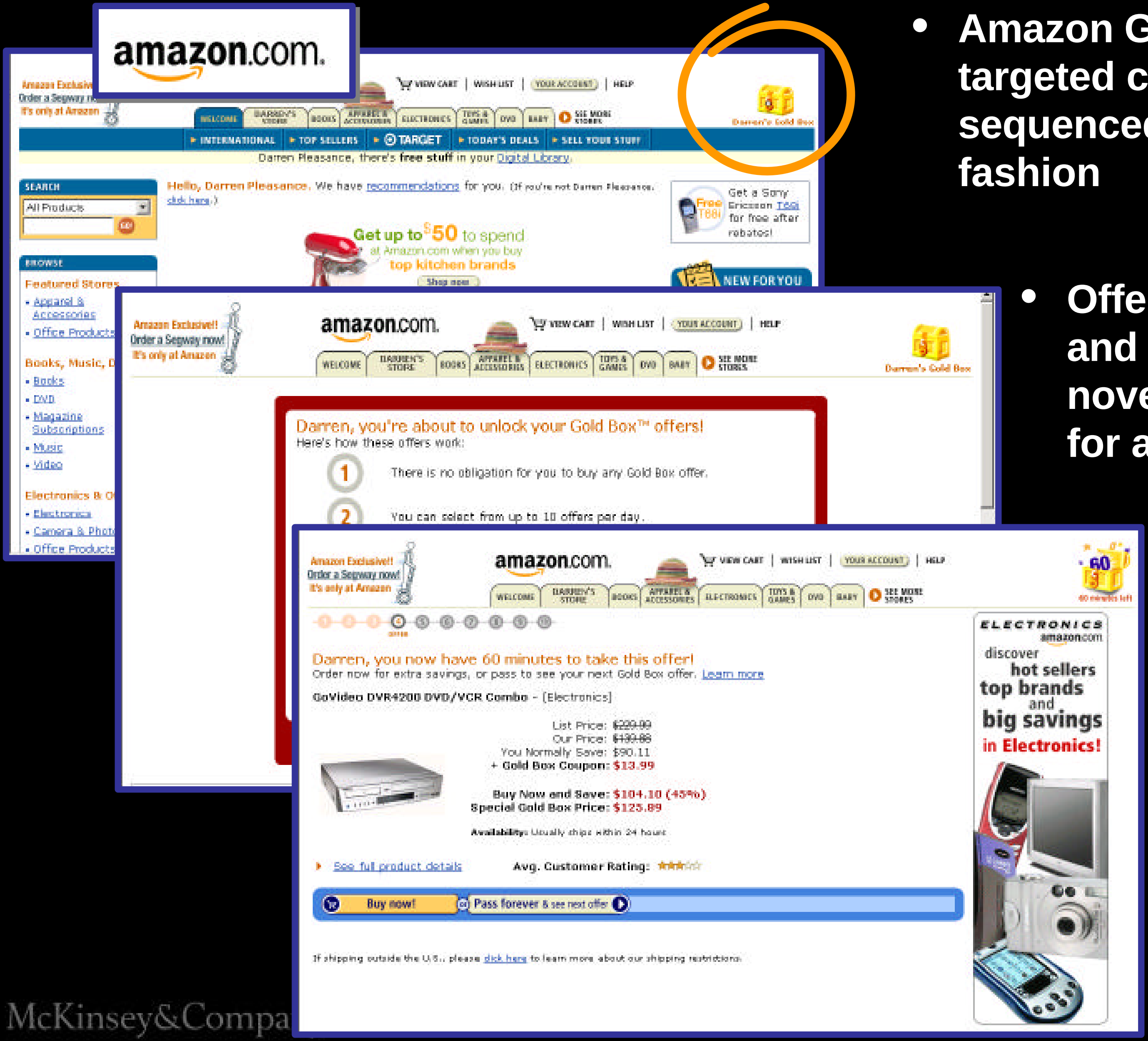
Financial industry example



Build trust through value exchange

Action	Web browsing	Ask about additional info	Extrapolate related events
Example	Customer inquiries on funds	Investments made in the past	Sizable balance transfer
	Gather *Give back*	*Gather* *Give back*	*Gather* *Give back*
Action	Make product suggestions	Refine product suggestion	Schedule an specialist
Example	Suggest tool through one click window	Interactive menu of investments	Customize investment package

TARGETED OFFERS – ONSITE MARKETING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Availability: Usually ships within 24 hours

Avg. Customer Rating: ★★★☆☆

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- **Amazon Goldbox provides targeted customer offers in a sequenced and interactive fashion**
- **Offers change every time and expire – keeps novelty high, and allows for additional learning**
- **Provides opportunity to test prices and offers in controlled environment**

KEY TRENDS OF SUCCESSFUL CRM

Using CRM to drive value

- Find innovative ways to gather key segment data based on interaction
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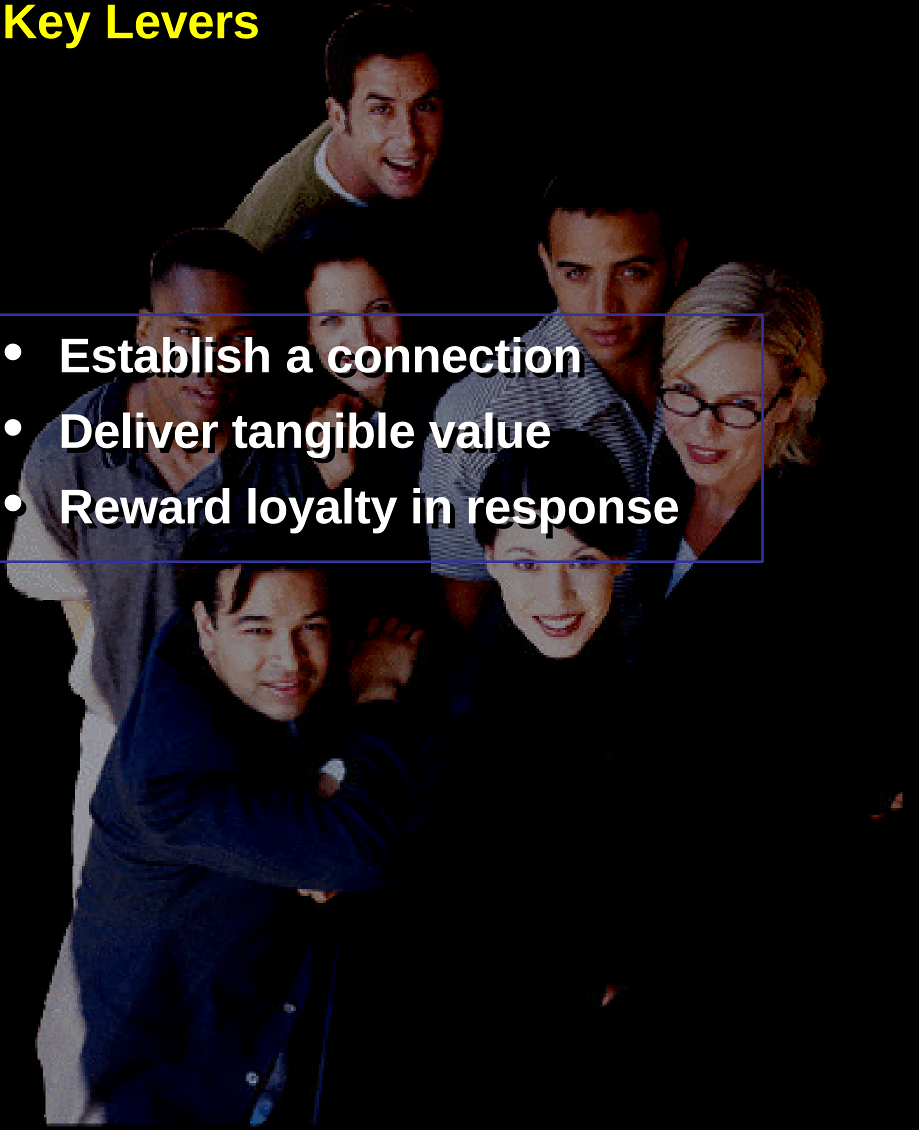


Key Levers

- **Establish a connection**
- **Deliver tangible value**
- **Reward loyalty in response**

COMMON PITFALLS OF THE PAST ARE BEING OVERCOMED

- Misunderstanding customer attitudes and discrectionary response
- Focus on managing attrition, not migration
- Over reliance on satisfaction as metric
- Uniform application of tools across all customers

NEW CRM PARADIGM CONSIDERS UNDERLYING CONSUMER ATTITUDES

Customer loyalty

Attitudes

- *Emotive*
- *Deliberative*
- *Inertial*
- *Variety seeking*

Satisfaction

- Satisfaction with previous provider
- Satisfaction with current provider

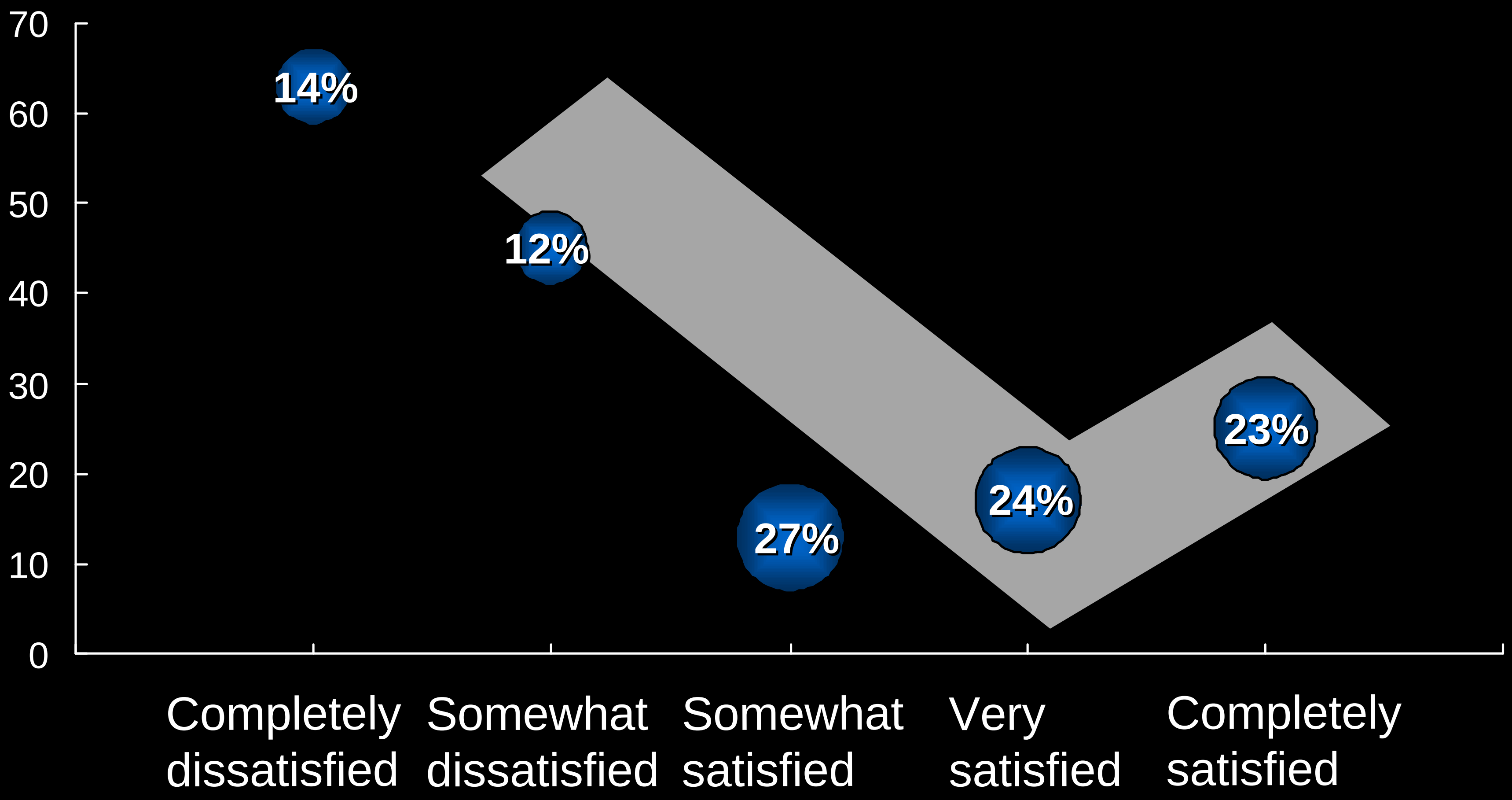
Economic behavior

- Discretion and control over migration behavior
- Value of relationship over lifetime

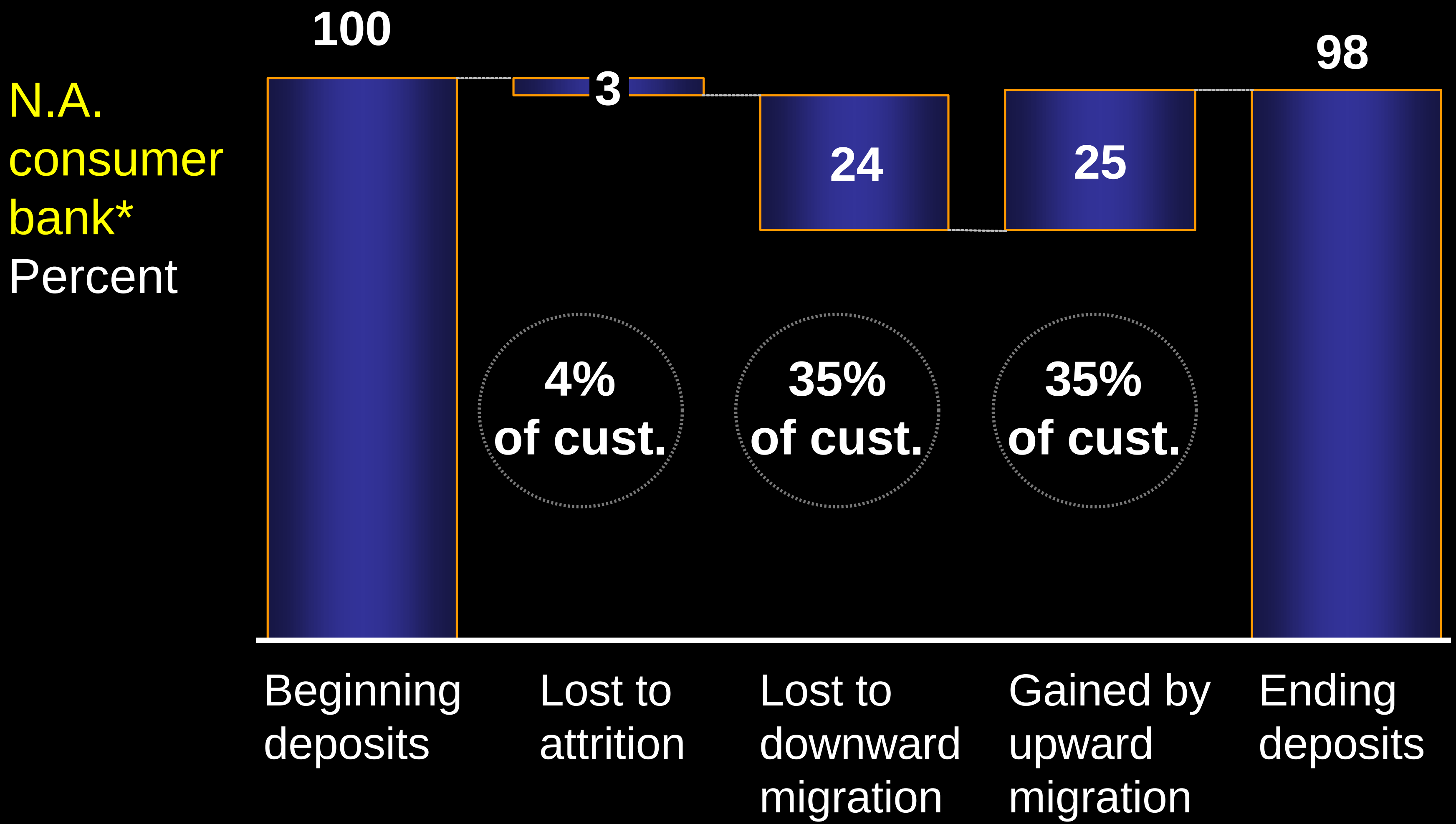
SATISFACTION NOT SUFFICIENT TO EXPLAIN MIGRATION

Consumer bank

Downward migration rate



SHIFTING FOCUS FROM ATTRITION TO MIGRATION



* Disguised examples illustrate change over time for existing customers on book as of first time period

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FOUR ATTITUDES TYPICALLY DISTINGUISHED

		Description
Emotive	25%	Rarely reassess purchase decision Believe current provider is better than all others
Deliberative	45%	Frequently assess choice of provider Base purchase decision on rational set of buying criteria
Inertial	20%	Rarely reassess purchase decision Believes changing provider is a hassle, unless challenged by service
Varity seeker	10%	Frequently reassess choice of provider Seeks variety