The Naked Art Of Segmentation

by [Steve Brown](#)

The World Naked Bike Ride is a worldwide phenomenon that has been gaining popularity in cities across the world in the past several years. Each of the rides this past year drew hundreds and even thousands of participants. These crazy Americans were sometimes covered in body paint, others were scantily clad in their underwear or bikinis, and still others bared all. You see, clothing is optional on these rides, all aimed at promoting a healthy body image, bike safety and advocating for biking as an alternative to driving cars. Officially the motto is "bare as you dare," allowing everyone to make their own choices on how little or how much to expose. These bikers are certainly individuals, each adding a different value to the race - similar to the value of bank customers (sans the naked of course).

We respect individuality, and indeed, it's critical for community banks to understand that not every customer behaves the same or has the same profitability value. For instance, research from our relationship profitability team finds it is not unusual to see more than 100% of a bank's profits generated by 10% to 20% of its customers. That's why it is critical that banks maintain systematic programs to identify and segment the best customers. Once identified, banks can better serve their most profitable customers, and in better serving them, more likely retain them.

Customer segmentation intelligence can help community banks better manage the balance sheet as well. For example, given the seasonality of agricultural businesses, deposits tend to fluctuate dramatically throughout the year in this area. Knowing and understanding the deposit balances attributable to this customer segment, and the cyclical nature of its balances, could assist the bank in better planning for its overall liquidity needs.

Segmentation can also yield more direction in setting goals for officers. For example, one bank we worked with wanted to grow its core deposit base. By segmenting its customer base, it found that many non-profit organizations maintained large stable deposits with the bank. This bank purchased a target list of all non-profit organizations in its geographic area and coordinated a calling effort to attract prospects. This gave the bank's staff a more actionable, targeted marketing plan, rather than simply being asked to grow deposits.

The bank then took it a step further. It cross-referenced the list of board members at the non-profit organizations with the bank's existing customer list to identify existing relationships. This exercise served to help identify additional ways in which to attract the non-profit's business. Targeting these board members as new customers was a solid move for the bank, since board members are also typically influential members of the community.

Other community banks have used segmentation to better pinpoint their marketing resources. Rather than spending marketing resources on general advertising, another bank customer identified the top 5 industries it served. It then developed marketing and advertising programs around these specific industries. This included advertising in trade journals, attending trade conferences and related

business development initiatives. Segmenting customers in this way can result in a more effective use of limited marketing dollars.

Segmenting customers by age can also be productive, as research shows age has a significant impact on retail banking consumer behaviors. A recent PeopleMetrics study highlights how younger consumers are mostly concerned about saving, whereas older consumers are much more interested in protecting assets. Understanding these differences can help your bank better serve your intended audience with targeted products and services.

Many banks like the idea of customer segmentation, but few model it well or develop action plans yet from the data. For segmentation to be most effective, you need to strip down the data to the bare minimum and then dress it up as needed, to meet the goals you are trying to accomplish. Email us to get started and we'll show you how easy it can be.

BANK NEWS

Rate Movement

In case you lost track of things or have been out of the office, we note that the 10Y Treasury yield hit 2.35% on Friday. Looking historically back to 2010, the yield has soared 74% from the lowest point (7/8/2016 at 1.35%) and is about 5% above the average over that period (2.24%). At this point it also remains about 37% below the highest point (2/8/2011 at 3.73%).

Infrastructure Bank

CNBC reports the Trump team is considering creating an infrastructure bank that would invest in projects related to infrastructure. The bank would likely leverage tax credits and other incentives to create a favorable environment for private infrastructure investment.

M&A Activity

1) First Interstate Bank ($9.0B, MT) will acquire Bank of the Cascades ($3.2B, OR) for about $589mm in cash (25%) and stock (75%) or about 2.15x tangible book. 2) Simmons Bank ($8.2B, AR) will acquire First South Bank ($464mm, TN) for about $72.2mm in cash and stock.

Move to Digital

Wells Fargo reports customer interactions with tellers have dropped 10% YOY as more people have shifted to digital channels.

BSA/AML

While numbers can vary depending on business practices, analysis we have done seems to indicate community banks need about 1 compliance person to handle BSA/AML for every $30mm or so in assets. So, a $100mm bank should project staffing up to about 3 or so people, while a $500mm bank probably needs closer to 15 to avoid trouble in this area from regulatory agencies.