Categorizing PPP Customers For Customer Profitability

profitability business customers pandemic PPP

Summary: By segmenting your PPP customers based on their needs for the funds, you can better determine customer profitability. We explore the different approaches for 3 customer segments, based on the intended use for PPP funds.

It may not be surprising to hear that Star Wars is considered the most profitable movie of all time. This is not just due to the 1977 movie itself. Its success stems from 12 released films in the series, its Disney rides, and merchandise galore. Likewise, bank customers could have other sources of income that make them more profitable. Finding that out is part of the process for bankers.

Now that the Paycheck Protection Program (PPP) has started up again, it is a good time to look at PPP customers and their profitability, possibly finding other areas of income.

Based on our discussions with community financial institutions (CFIs), there are three types of PPP customers: those who need money, those who need money for a rainy-day fund, and those who just want money. Whether it is a new relationship or an existing relationship, understanding where a customer falls within these groups is important when determining profitability.

CUSTOMER SEGMENT 1: Those who need money

- Needed the PPP funds to pay employees
- PPP funds no longer on deposit and may have cash flow issues
- May have credit problems, and are likely already being closely monitored

What to consider: A review of their deposit transactions and analyzing where the funds went may determine if a customer falls in this category. If the customer's operating account is not with your institution and funds were moved out in a lump sum, some more digging may be required to determine profitability. These customers will likely be coming to you for additional assistance. Their credit status may determine your institution's ability to continue working with them.

CUSTOMER SEGMENT 2: Those who need a rainy-day fund

- Applied for PPP to have an emergency fund
- Know there may be some cash flow issues ahead
- Typically, well-banked and may have moved PPP funds to a deposit account elsewhere

What to consider: If the PPP funds are still on deposit with your institution, view profitability with and without these funds. If the funds have not been used, encourage the customer to keep the funds on deposit with your institution. You may want to target certain industries within this customer group to obtain more of the wallet share.

CUSTOMER SEGMENT 3: Those who want money

- Cash-rich and tend to have larger deposits

- May not have any bank debt

What to consider: These customers can provide preferred funding for your CFI. Do you have the operating accounts for these customers? If not, this provides a targeted opportunity. When encouraging them to move accounts, be prepared with a switch kit. If these customers are requesting an additional line of credit or a rate modification, and they are in an industry that you believe will sustain through the pandemic, it may make sense to extend the credit.

Determining where a customer falls in these categories may require data mining to understand where their funds are going. With the knowledge of who is using the funds and how, it’s much easier to create targeted customer lists and have a method to approach customers.

In general, a customer’s financials should help determine the stability of the customer and whether or not PPP loans or deposits should be used when deciding ongoing profitability. Of course, you should also take into account the customer’s industry and whether or not they have applied for forgiveness. The better the data, the clearer the picture of customer profitability.

ASSESS PROFITABILITY THROUGH THE CRISIS

Profitability FIT is a profitability solution that measures performance at the account level, but also at the entire customer level. Price not just credit but the entire relationship to win more deals.