



Lessons Learned From Your Peers On Customer Profitability

cross-sell business customers customer profitability

Summary: With interest rates set to rise in the coming months, some banking customers may be tempted to shop around for the best deals. Effective customer profitability analysis allows community financial institutions to better retain and target new customers, while increasing overall customer profitability. We share some lessons from institutions that have successfully implemented these models along with three ways to increase customer profitability.

Gambling — a \$44B industry in the US in 2021 — generates more revenue than movies, spectator sports, theme parks, cruise ships, and recorded music combined. Banking is a far cry from gambling, but many community financial institutions (CFIs) would like to increase the house odds when growing profitable customers. One way to do that is through customer profitability analysis.

While still relatively low, interest rates are set to rise in the coming months, as the Federal Reserve seeks to counter the possibility of sustained high inflation, currently over 7.5%. Higher rates combined with a continued competitive loan environment may prompt your customers to shop around — for higher returns on their deposits or fixed rates on their loans. This highlights the role of customer profitability analysis in helping CFIs to protect their customer base, while maximizing their revenues.

Effective customer profitability analysis — covering both current profitability and lifetime value — can allow institutions to be more competitive by targeting new, more profitable customers, cross-selling effectively to existing customers, and migrating customers to more profitable products. We look at how some CFIs have used customer profitability analysis tools to achieve their goals and suggest **three customer profitability strategies** to enhance and deepen your customer relationships.

CFIs benefit from customer profitability analysis

One CFI operating in NY and PA uses a profitability tool to gain a holistic view of its customers, track balances, spreads, asset quality, and overall profitability. This has helped the institution make information-driven decisions. *“Now we know whether we are losing some of our top customers, if our customers are changing their behavior, the impact of new customer activity, and the overall returns generated by each customer,”* says an executive from the institution.

Another institution based in WI, says it is now able to identify how individual lenders and customer relationships contribute to the institution’s overall profitability. The institution also looks at noninterest income: *“We want to focus on bringing those customers in at a relationship level and minimizing the customers who are just parking money in certificate of deposits and shopping rates.”*

These institutions used the data that they gathered through customer profitability tools to gain insights into customer behavior and determine their most valuable customers. Your institution’s goals will dictate which direction to go with your customer profitability strategies. Here are three strategies to consider.

Three impactful strategies to increase customer profitability

1. **Target increased share of wallet.** By leveraging data, CFIs can identify opportunities to sell additional services to both profitable and unprofitable customers. One of our clients, the CEO & President of a CFI in FL, says of their customer profitability tool, *"...we need to be able to identify the tangible influence that some of these relationships bring to the table, and leverage it, in terms of referrals, in terms of additional cross-sells. And so, the basis of being able to do that is having your relationships stratified into profitability segments."*

By identifying less profitable segments, CFIs can develop targeted campaigns to add extra services and capture new fee income. Services such as cash management, treasury services, and international services can help you do this. What's more, by analyzing data from profitable customers, you should be able to identify related behaviors. These could suggest referral opportunities, additional marketing campaigns, or supplementary products that may increase the profitability of the less profitable segments. This data could also highlight new approaches to attract additional profitable customers.

2. **Reassess relationship lifetime value.** Many CFIs have a great record when it comes to service and relationships — and the pandemic reinforced this. But, now is a good time for CFIs to reassess customer lifetime value. In a rising rate environment, some customers may be more fickle than others. On the other hand, some customers rely on your advice and services to grow. Asking questions about future financial goals, any additional investment opportunities, etc., will give you a more comprehensive long-term view of your customers and their loyalty. Then, you can figure out how to help them reach these goals.

In using our [customer profitability tool](#), one Midwest CFI Credit Officer states, *"We need to think long-term; can we get this customer profitability over the next one, two, three, four, or five years, and what will it take?"*

Using the profitability tool will allow you to answer these important questions and make the right pricing decisions. Without a profitability tool, you won't know if the right customers (unprofitable ones) have left.

3. **Focus on niche sectors.** Looking for new profitable customers, you may want to zero in on certain niche areas. Supporting specific segments can help institutions differentiate from the competition and fill an unfulfilled need in the community.

For example, a CFI in SD has made a name for itself by specializing in the agricultural sector. *"We live [agricultural], we breathe it and a lot of lenders are farmers themselves. That's our competitive advantage,"* says the institution's CFO.

Another institution in KS has taken steps to better serve the Latinx community, including hiring bilingual staff and offering services in Spanish. *"To ignore these customers would not only be socially unacceptable but dramatically detrimental to the bank's economic viability,"* says the institution's CEO.

Understanding the value of each customer relationship enables CFIs to make targeted and compelling offers to new and existing customers. Customer profitability tools, such as [Profitability FIT](#), allow you to do this. It is key to driving overall institution profitability and delivering value for customers and shareholders alike. For more information, feel free to review our [library of articles on customer profitability](#).

ASSESS CUSTOMER PROFITABILITY IN THIS MARKET

Profitability FIT is a [customer profitability solution](#) that measures performance not only at the account level, but also at the entire customer level. Win more deals.

ECONOMY & RATES

Rates As Of: 03/14/2022 10:06AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.32	-0.03	0.26
6M	0.60	-0.09	0.41
1Y	1.05	0.05	0.66
2Y	1.49	0.06	0.76
5Y	1.73	0.01	0.47
10Y	1.84	0.01	0.32
30Y	2.19	0.02	0.28
FF Market	FF Disc	IORR	
0.08	0.25	0.15	
SOFR	Prime	OBFR	
0.05	3.25	0.07	

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