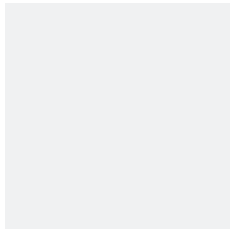


**A Practical Guide for Community Banks**



## **Driving Organic Growth: 5 Steps to Profitable Cross-selling**

*Authored by:*

Curry Pelot

Chief Information Officer

Bank Intelligence Solutions from Fiserv

## Driving Organic Growth: 5 Steps to Profitable Cross-selling

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*If you have a high penetration of savings accounts with Flourishing Families your go-to-market strategy, product lineup and packaging would seem to resonate well with this group. If that ratio is very low for a specific branch, question why. On the other hand, if it is low for the franchise, would changes in messaging and packaging attract more?*

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Adults own an average of 8.2 financial products, but generally have only 2.5 of those products at any one financial institution.

**Forrester Research 2009**

Cross-selling is getting a lot of attention these days, and it's easy to see why. If you're looking for organic growth, this strategy has definite advantages. It's more cost-effective than adding new customers. It promotes customer retention. And every community bank has plenty of cross-sell opportunities which are both available and achievable.

The key to successful cross-selling is knowing where your best opportunities are – throughout your entire franchise. This paper outlines a simple step-by-step guide for accomplishing that goal. You'll see how to calculate your consumer cross-sell potential and how to set realistic sales goals for each branch. Above all, you'll learn how to determine which customers will be most likely to buy which products.

This approach is relatively quick and very straightforward. It doesn't require heavy investments in complex technology. And it relies primarily on data you already have in your customer files. That's why it's the best strategy we know of for producing short-term cross-sell results.

### Why Cross-selling Is So Critical

Before we dive into how to approach cross-selling, it's important to know why cross-selling delivers such profitable returns.

**It's cheaper than acquisition.** It's 8-10 times more costly to acquire new customers than to sell additional products to ones you already have. Plus, cross-selling is also a safe and stable way to generate core deposits, compared to more expensive liquidity options.

**It improves retention.** Dramatically. On average, a customer with just one product at a bank will stay with the institution for about 18 months. By adding just one more product, you extend that relationship (and income) to four years. At three products, that relationship will last an average of 6.8 years.

**It increases wallet share.** Community banks typically hold 35-50 percent of a customer's wallet share. That's how much of the customer's assets – including checking, savings, money-market accounts, and such – are held at the same institution. You want the lion's share. This strategy can help you grab it.

**It broadens your profit base.** A significant feat, since only 1-2 percent of a bank's customers usually account for almost all its profitability. Clearly, a lot of customers add very little to your bottom line. Cross-selling can bring diversity and strength to the group you rely on the most.

**It's a "now" opportunity.** Experts say a customer won't consider changing a primary banking relationship unless a disruptive event occurs. That could be anything from an increase in charges to bad customer service, or even misconceptions about the bank. Three

## Driving Organic Growth: 5 Steps to Profitable Cross-selling

### 5 Steps to Effective Cross-selling

- 1) **Know what your current customers are like** – using household segmentation
- 2) **Measure what they've already bought** – so you can quantify your prospects
- 3) **Determine your best targets** – identifying opportunities at each branch
- 4) **Set realistic sales goals for each branch** – based on averages for the franchise as a whole
- 5) **Go for the gold** – leveraging the right resources to meet expected \$ return

#### The 12 Nielsen P\$YCLE® Lifestage Groups

This household segmentation system groups consumers into 58 different segments based on life stage, income and assets. The segments are commonly used for mailing lists and other targeted database marketing programs

- Upwardly Mobile
- Metro Mainstream
- Fiscal Fledglings
- Flourishing Families
- Upscale Earners
- Mass Middle Class
- Working-Class USA
- Financial Elite
- Wealthy Achievers
- Upscale Empty Nests
- Midscale Matures
- Retirement Blues

potentially disruptive developments are at work in the banking world today. Any or all might send consumers packing to another institution:

- 1) Pending changes in fee regulations
- 2) Too-big-to-fail resentment against the big banks
- 3) Movements that spotlight the value of community banking

Here are the steps you can take to capitalize on this perfect storm of opportunity – and all the other benefits that come from making cross-selling a big success.

### 5 Steps to Effective Cross-selling

By effective, we mean putting time and resources toward the right things. You can have the best cross-sell campaign in the world, but it won't generate optimal returns if it's targeted to the wrong customers or you are positioning the wrong products.

For example, a branch won't be highly successful at trying to sell mobile banking to retirees living off fixed incomes. That's only logical. But other realities aren't as obvious. How many of the branch's customers are candidates for a mobile banking product? Which ones are most likely to open an account? Based on that information, what's a realistic sales target for each individual branch? What kind of dollar return should you expect from your cross sales efforts?

The following paragraphs explain how you can easily answer these questions. It's a process any franchise can use, regardless of your size, locations or the types of customer you have.

To illustrate, we're using a bank with six branches that wants to sell more savings accounts. Here's how it's done.

#### 1. Know what your current customers are like.

How do you identify your best cross-sell opportunities? Start with customer segmentation. It will help you understand the types of customers you currently have, and group them according to their buying habits.

One of the most popular tools to help you with this is the Nielsen P\$YCLE® household segmentation system. It groups consumers according to demographics such as age, family structures, income, assets, interests and financial behaviors. Customers in the same group tend to gravitate to the same types of products.

P\$YCLE defines 12 Lifestage Groups, with multiple sub-groups under each one. (For a complete listing, see the appendix.) In our example, we're interested in the higher-income Flourishing Families group.

The Flourishing Families group contains subcategories of customers,

which are described by Nielsen as Big Spenders, Family Fortunes, Feathered Nests and Middle Highlife.

Generally these people are well-educated executives and managers (or retirees) who go online to handle financial matters such as trading stocks and transferring funds. They enjoy good-life hobbies and interests. They tend to have multiple insurance products. And they're likely to have savings accounts.

How do you put this kind of intelligence to work for your bottom line? Simply take the current household-level data in your customer information file and overlay it with the P\$YCLE information.

BancStudy™: Consumer Deposits can provide an automated solution to perform your customer segmentation (see sidebar).

Once you've enhanced your customer file in this way, you can total the number of households in each segment – for the bank as a whole, and for each individual branch.

### **BancStudy™: Consumer Deposits**

A cost-effective, automated solution which does the work for you:

- Segments your customers using the Nielsen P\$YCLE system
- Analyzes your customers to calculate:
  - Overall product penetration
  - Household segment product penetration
  - Branch-level product penetration
  - Franchise-wide gap analysis
- Identifies realistic cross-sell goals
- Generates marketing lists

> [Download Brochure](#)

## **2. Measure what they've already bought.**

Before you can know how many new savings accounts you can sell at each branch, you need to know how many the bank's already sold. This is known as your product penetration level. Here's the formula for determining it:

$$\frac{\text{\# of Households with Savings Accounts}}{\text{\# of Households with the Bank}} = \% \text{ of Product Penetration}$$

You can apply this formula to any product or product group. And, using data in your customer file, you can take the formula a step further and learn the average balance held in each savings product. (You'll use that average later to determine the returns you can expect from your cross-sell campaign.)

## **3. Determine your best cross-sell targets.**

Now you need to find out which segments have what products. You can use a similar formula to learn that, too. Just take the product you want to sell, and "do the numbers" for each customer segment. The formula for determining the percentage of Flourishing Families (FF) households with savings accounts would look like this:

$$\frac{\text{\# of FF Households with Savings at Bank}}{\text{\# of Total FF Households at Bank}} = \% \text{ FF Savings Penetration at Bank}$$

After you've calculated this percentage for all the segments, you'll have a list of top-priority customer groups who are most likely to buy a product – and you'll know which households to target with your cross-sell campaign.

## Driving Organic Growth: 5 Steps to Profitable Cross-selling

In our example scenario, 48.7% of FF customers currently have a savings product. This means the bank can potentially sell a savings account to 51.3% of its customer base.

Taking this formula down to the branch level, you can identify and quantify your best cross-sell opportunities throughout the franchise (see Step 4 to set realistic sales targets). Just calculate the segment/product percentages for each location to determine the current household product penetration.

$$\frac{\text{\# of FF Households with Savings at Branch 1}}{\text{\# of Total FF Households at Branch 1}} = \text{\% FF Savings Penetration at Branch 1}$$

In our scenario, the savings penetration percentage at Branch 1 turned out to be 30%. In a franchise with a diverse network of five or more branches, your sales opportunities will vary significantly due to differences in location, competitive saturation, customer composition and other factors. Most banks have difficulty sorting out all those variables to arrive at a reliable product percentage penetration number. However, if you simply calculate your product penetration by customer segments, you'll never have a problem knowing how many cross-sell prospects you have at each branch.

#### 4. Set realistic sales goals for each branch.

What more can an individual branch do to add to the growth of the franchise? That's the question this step answers. If there's any diversity in your branch network, some of your branches will not be performing up to the average of the franchise as a whole. You can use the following formula to determine the performance gap (either under or over the average) for each branch:

$$\begin{aligned} & \text{— \% FF Savings Penetration Average for the Franchise} \\ & \text{\% FF Savings Penetration for the Branch} \\ & \text{\% Performance Gap (the sales increase target)} \end{aligned}$$

The goal is to lift underperforming branches at least to the penetration average for the franchise. This can make a significant impact to the bank's profit. And we know that the average is a realistic number to shoot for; after all, the bank as a whole is already reaching it.

The formula can be used to determine product penetration gaps by product category, individual product, household segment and branch.

$$\begin{aligned} & \text{48.7\% FF Savings Penetration for the Total Franchise} \\ & \text{— 30.0\% FF Savings Penetration for Branch 1} \\ & \text{18.7\% Performance Gap (the sales increase target) for Branch 1} \end{aligned}$$

The performance gap of 18.7% becomes the sales target Branch 1 will be aiming for.

(Note: The numbers indicate that things are already working pretty well for the bank in our sample scenario. The product set, messaging, and go-to-market strategy all seem to be clicking with a healthy percentage of existing customers. To move the needle significantly, the bank might want to think about a change in these historic factors. In the long term, it's probably a good idea for the bank to review those factors. But in the short term? This is a valid and practical way to capitalize on existing profit potential.)

## 5. Go for the gold.

Now it's time to put a dollar amount on each branch's sales opportunity. To do this, go through the branches individually. Multiply a branch's gap number by its total number of households in the likely-to-buy consumer segment. The result is the potential number of sales you can expect from your cross-sell campaign at that branch. This is the formula:

$$\begin{array}{l} \text{\% FF Savings Penetration Gap at Branch} \\ \times \text{\# of Total FF Households at Branch} \\ \hline \text{Potential FF Savings Sales at Branch} \end{array}$$

In our example, the numbers turn out to be:

$$\begin{array}{l} \text{18.7\% FF Savings Penetration Gap at Branch 1} \\ \times \text{500 FF Households at Branch 1} \\ \hline \text{93.5 Total Potential FF Savings Sales at Branch 1} \end{array}$$

Now, to quantify that sales potential in terms of expected ROI, multiply the potential households by the average savings account balance at the bank. The result will be the dollar amount of return you can expect from your cross-sell opportunity at the branch, as follows:

$$\begin{array}{l} \text{\# Total Potential FF Savings Sales at Branch} \\ \times \text{\$ Avg Savings Balance at Bank for FF Households} \\ \hline \text{\$ FF Savings Cross-sell Opportunity at Branch} \end{array}$$

In our example, the numbers are:

$$\begin{array}{l} \text{93.5 FF Potential Savings Sales at Branch 1} \\ \times \text{\$3000 Avg Savings Balance at Bank for FF Households} \\ \hline \text{\$280,500 Total FF Savings Cross-sell Opportunity at Branch 1} \end{array}$$

Knowing these numbers is a critical factor in budgeting and planning your cross-sell initiatives. In Appendix B you can see how the numbers broke out for a real bank with multiple branches. By carefully analyzing your customers and markets, and establishing clear targets for your branches to meet, you can better allocate the right resources to the right efforts.

## In Summary

To optimize any cross-sell effort, it's vital to understand what your customers want, what they need, and what they're likely to buy. These factors will enable you to sell significantly more product and build a much more loyal customer base. Wells Fargo does an exceptional job at this. Described by US Banker as an industry leader in the number-of-products-per-household category, the bank publicly states that its goal is to help its customers succeed. As a result, it makes money. And a successful cross-selling strategy is part of its process.

By contrast, many other institutions have no cross-selling strategies at all. They allocate their entire marketing budgets to origination and acquiring new customers – mainly because they haven't been able to quantify the actual dollar value of their cross-sell opportunities. Or because they haven't figured out how to target the right customers with the right products.

This is a viable, straightforward way to uncover those unknowns and go for the gold inside your own customer base – and you can implement the strategy fairly quickly, without a huge investment in technology. As you apply the guidelines and calculations described here and embark on your cross-sell initiatives, these are a few tips to keep in mind:

- Proactively target your consumer groups; don't wait for them to ask you about products.
- Using segmentation, package a limited set of products that are easy to understand and communicate to specific customer segments.
- Utilize multiple points of contact, channels, and whatever other opportunities exist for getting the cross-sell message in front of the consumer should a disruptive event occur.
- Encourage customer referrals and cultivate advocates who will be vocal in the community about their positive relationships with the bank.
- Be creative – especially now. Offer incentives. Ideas are unlimited, and the rewards of cross-selling consumer products are worth thinking about.

**For more information** on how to develop effective cross-selling strategies contact Bank Intelligence Solutions from Fiserv at [bi.info@fiserv.com](mailto:bi.info@fiserv.com) or 800.846.6681 ext. 3429.

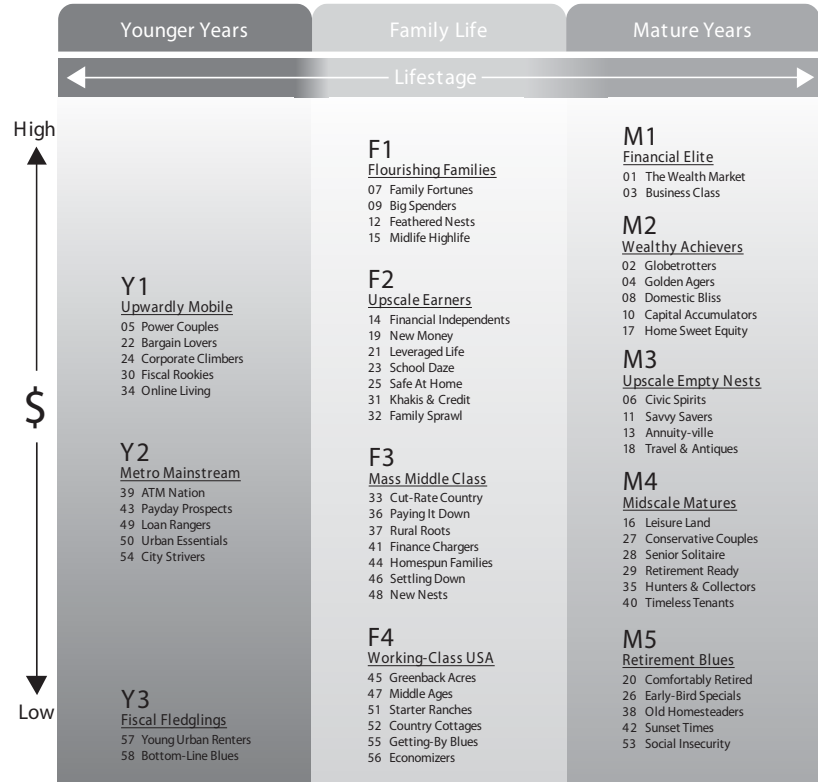


### Bank Intelligence surveyed more than 400 community banks:

- 60%** Don't have an ongoing marketing effort for current customers.
- 61%** Don't segment their current customers.
- 84%** Haven't measured wallet share of current customers.

## Appendix A: The Nielsen P\$YCLE® Lifestage Groups

Based on annual surveys of more than 80,000 households, the P\$YCLE system by Nielsen divides consumers into 12 Lifestage Groups according to their like family structures, income and assets. Each group is further subdivided into 58 different segments. These definitions and designations are commonly used by U.S. marketers to ensure optimal returns from their mailing lists and other targeted database marketing programs.



Source: Nielsen document N8048\_0609



## Appendix B: Cross-sell Opportunity Analysis Example

The following is a real bank's cross-sell opportunities calculated by applying the penetration gap approach outlined in the 5 Easy Steps to Profitable Cross-selling.

### Consumer Growth - Cross-Sell Opportunity by Branch

Branch report of cross-sell opportunity by deposit product. Cross-sell opportunity is calculated using the branch-level household product penetration gap (franchise penetration - branch penetration x franchise average household product balance).

| Cross-sell Opportunity by Product |                |                  |                  |                  |                |                  | Total Cross-sell Opportunity | Total Existing Deposits | Growth Opportunity (% of Existing Deposits) |
|-----------------------------------|----------------|------------------|------------------|------------------|----------------|------------------|------------------------------|-------------------------|---|
| Branch                            | Savings        | NOW              | MMDA             | IRA              | DDA            | CD               |                              |                         |   |
| 2345 Webb Road                    | 280,909        | 2,029,036        | 1,181,526        | 421,298          | 1,424          | 2,549,426        | 6,463,619                    | 21,203,641              | 30.48%                                      |
| 4321 Milton Road                  | 183,337        | 3,178            | 912,685          | 472,722          | 248,846        | 1,402,597        | 3,223,365                    | 27,597,510              | 11.68%                                      |
| 1234 Northpoint Pkwy              | 151,466        | 3,178            | 860,609          | 535,051          | 231,340        | 1,222,024        | 3,003,668                    | 26,675,274              | 11.26%                                      |
| 234 Main Street                   | 177,539        | 346,052          | 363,527          | 338,847          | 41,746         | 1,495,857        | 2,763,568                    | 7,776,798               | 35.54%                                      |
| 800 Northridge Road               | 72,536         | 664,485          | 476,904          | 180,402          | -              | 1,343,979        | 2,738,306                    | 9,312,777               | 29.40%                                      |
| 13 Roswell Street                 | 86,433         | 429,339          | 396,066          | 321,411          | 10,905         | 1,352,142        | 2,596,296                    | 6,277,456               | 41.36%                                      |
| <b>Totals</b>                     | <b>952,220</b> | <b>3,475,268</b> | <b>4,191,317</b> | <b>2,269,731</b> | <b>534,261</b> | <b>9,366,025</b> | <b>20,788,822</b>            | <b>98,843,456</b>       | <b>21.03%</b>                               |

Source: BancStudy by Consumer Deposits

### Consumer Growth - Cross-Sell Opportunity (Summary by Household Segment)

Summarized report of cross-sell opportunity by deposit product for each household type. Cross-sell opportunity is the sum of all the branch-level household product penetration gaps (franchise penetration - branch penetration x franchise average household product balance).

| Cross-sell Opportunity by Product |                |                  |                  |                  |                |                  | Total Cross-sell Opportunity | Total Existing Deposits | Growth Opportunity (% of Existing Deposits) |
|-----------------------------------|----------------|------------------|------------------|------------------|----------------|------------------|------------------------------|-------------------------|---|
| Household Segment                 | Savings        | NOW              | MMDA             | IRA              | DDA            | CD               |                              |                         |   |
| Midscale Matures                  | 94,054         | 385,374          | 776,415          | 341,304          | 42,467         | 1,937,312        | 3,576,927                    | 18,022,408              | 19.85%                                      |
| Retirement Blues                  | 131,633        | 335,665          | 476,337          | 309,650          | 28,912         | 2,176,142        | 3,458,339                    | 18,014,043              | 19.20%                                      |
| Working-Class USA                 | 155,377        | 704,737          | 633,640          | 333,477          | 118,899        | 1,017,656        | 2,963,787                    | 15,576,595              | 19.03%                                      |
| Mass Middle Class                 | 118,678        | 320,654          | 382,720          | 222,232          | 56,202         | 805,005          | 1,905,490                    | 8,477,921               | 22.48%                                      |
| Fiscal Fledglings                 | 81,631         | 317,527          | 209,050          | 88,641           | 78,568         | 647,278          | 1,422,696                    | 5,220,343               | 27.25%                                      |
| Upscale Empty Nests               | 54,431         | 229,444          | 392,334          | 203,769          | 22,206         | 600,602          | 1,502,786                    | 7,783,404               | 19.31%                                      |
| Wealthy Achievers                 | 61,630         | 225,459          | 377,259          | 186,524          | 11,965         | 588,164          | 1,451,002                    | 5,760,834               | 25.19%                                      |
| Upscale Earners                   | 82,878         | 277,266          | 228,181          | 233,732          | 43,386         | 525,923          | 1,391,366                    | 6,868,140               | 20.26%                                      |
| Metro Mainstream                  | 64,754         | 279,650          | 274,589          | 80,113           | 57,720         | 344,226          | 1,101,053                    | 4,868,088               | 22.62%                                      |
| Financial Elite                   | 53,394         | 194,685          | 155,649          | 144,877          | 35,106         | 335,386          | 919,097                      | 3,691,448               | 24.90%                                      |
| Upwardly Mobile                   | 30,503         | 137,744          | 212,391          | 78,436           | 23,298         | 221,526          | 703,897                      | 3,277,870               | 21.47%                                      |
| Flourishing Families              | 23,256         | 67,064           | 72,753           | 46,976           | 15,529         | 166,805          | 392,382                      | 1,282,363               | 30.60%                                      |
| <b>Totals</b>                     | <b>952,220</b> | <b>3,475,268</b> | <b>4,191,317</b> | <b>2,269,731</b> | <b>534,261</b> | <b>9,366,025</b> | <b>20,788,822</b>            | <b>98,843,456</b>       | <b>21.03%</b>                               |

Source: BancStudy by Consumer Deposits



**Fiserv, Inc.**  
Bank Intelligence Solutions  
1301 Hightower Trail  
Suite 310, Northridge Pavilion III  
Atlanta, GA 30350

800-846-6681 ext.3249  
[bi.sales@fiserv.com](mailto:bi.sales@fiserv.com)  
[www.bankintelligence.fiserv.com](http://www.bankintelligence.fiserv.com)