Five Steps to Profitable Cross-Selling

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Cross-selling offers definite advantages for a bank looking to grow its franchise organically. It's more cost-effective than adding new customers. It promotes customer retention and increases wallet share. And every community bank has plenty of cross-sell opportunities both available and achievable. Many institutions, however, make the mistake of allocating their entire marketing budgets to acquiring new customers — mainly because they haven't been able to quantify the actual dollar value of their cross-sell opportunities and/or they haven't figured out how to target the right customers with the right products.

Don't miss your chance to sell more products and build a more loyal customer base. Here are five straightforward steps you can take to pinpoint where your institution's best cross-sell opportunities lie throughout the franchise and begin capitalizing on them.

1. Know your current customers — using customer segmentation.

This 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 is the Nielsen P$YCLE household segmentation system. Simply take the current household-level data in your customer information file and overlay it with the P$YCLE information. From there you can total the number of households in each segment — for the bank as a whole and for each individual branch.

2. Measure what they've already bought — so you can quantify your prospects.

Before you can know how many new savings accounts you can sell at each branch, you need to know how many the bank has already sold. This is known as your product penetration level. Here's the formula for determining it: *# of Households with Savings Accounts ÷ # of Households with the bank = % 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 to 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 targets — identifying opportunities at each branch.

Take the product you want to sell and "do the numbers" for each customer segment. For example, the formula for determining the percentage of Flourishing Families (FF) households with savings accounts would look like this: *# of FF Households with Savings at Bank ÷ # of Total FF Households at Bank = % FF Savings Penetration*.

After you've calculated this percentage for all the segments, you'll have a list of top-priority customer groups most likely to buy a product — and you'll know which households to target with your cross-sell campaign. You can apply this same formula at the branch level; just calculate the segment/product percentages for each location to determine the current household product penetration.

4. Set realistic sales goals for each branch — based on averages for the franchise as a whole.

If there's any diversity in your branch

network, some of your branches will not be performing up to the average of the whole franchise. Use the following formula to determine the performance gap (either under or over the average) for each branch: *% FF Savings Penetration for the Franchise - % FF Savings Penetration for the Branch = % Performance Gap (the sales increase target)*.

If you can lift underperforming branches to at least the penetration average for the franchise, you can have a significant impact on the bank's profit. Use the formula to determine product penetration gaps by product category, individual product, household segment and branch.

5. Go for the gold — leveraging the right resources to meet expected monetary return.

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: *% FF Savings Penetration Gap at Branch x # of Total FF Households at Branch = Potential FF Savings Sales at Branch*.

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: *# Total Potential FF Savings Sales at Branch x $ Average Savings Balance at Bank for FF Households = $ FF Savings Cross-sell Opportunity at Branch*.

By carefully analyzing your customers and markets, and establishing clear targets for your branches, you can better allocate the right resources to the right efforts.

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. By applying the guidelines and calculations above, you can uncover those unknowns and go for the gold inside your own customer base. Good luck!

To obtain a copy of the "5 Steps to Profitable Cross-Selling" white paper, please contact Andy Grinstead at Andrew.Grinstead@fiserv.com at or 800-846-6681 Ext. 3244.

About the Author

Curry Pelot has more than 15 years' experience in bank operations, analysis and consulting. He was a founding manager of BancIntelligence which was acquired by Fiserv in 2007. In his current role, Pelot is responsible for the operation and product development for the BancAnalyst online advisory tools.