

Customer Portfolio Management a Vital Component of Improved Customer Experiences

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This article is the first of several that tackle the vital topic of customer portfolio management (CPM). We will define what CPM is and outline its applicability to the C-suite, board and bank strategy. Learning to excel at CPM will dramatically improve the financial performance of your bank, and will also create superior customer experiences.

If you have attended any bank conferences in the last few years, you know the cousin of customer portfolio management, also referred to as big data or analytics. CPM is anything but the standard version of analytics.

Actually, I don't even use the terms "big data" or "analytics" anymore. I cringe when I'm asked to speak on "big data." Those are words used either to sell software or do tactical campaign management, and that's not our goal.

What Is Customer Portfolio Management?

CPM breaks the entire customer base of your bank into critical, digestible parts so you can build appropriate strategies for each customer group.

Just as your loan portfolio has different risks, maturities and ALM concerns, your customers have different attrition risks, profitability levels, revenue mixes, demographics, levels of financial health, preferences and life events.

Customer portfolio management is the opposite of the mass-market approach taken by most of your competitors. It is a commitment to deeply understand the very people you exist to serve, takes your team's knowledge of your customers to a much

higher level, and changes how you operate.

Not Your Father's Analytics

Typical analytics efforts generally focus on cross-selling more products and meeting budget numbers. Usually the marketing department, digital banking and front-line business units are involved, but generally executive management is far removed from this process because of its tactical nature.

In contrast, the CPM approach is strategic, far-reaching and longer-term. Its scope is the entire bank, so CEOs and their executive teams need to be deeply involved to formulate new strategies, invest in technology and train employees.

Customer Profitability Groups

For successful CPM I like to segment customers into four easy to understand profitability groups. I typically use the terms End Zone, Red Zone, Mass Market and Lower Tier to describe them.

- End Zone is 10 percent of your customers and 90 percent of your profits.
- Red Zone is another 10 percent of customers, but only 20 percent of profits.
- Mass Market is about 30 percent of your customers and 5 percent of profits.
- Lower Tier is about 50 percent of your customers and takes away 25 percent of your profits.

These four profit groups are fundamental building blocks of CPM, and provide a basic level of understanding around profitability. You wouldn't

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FIGURE 1



The bar chart in the top left shows the typical 90/10 split, meaning 90 percent of profits come from 10 percent of customers. The other metrics show numbers of households in each profit group, high-level reasons for profitability, cross-sell ratios and attrition risk.

This particular information is at a high enough level for your board to understand and use to begin asking strategic questions and making meaningful decisions. Once they begin understanding the overwhelming impact of the top customers, they will start thinking differently about strategic resource allocations.

We have just started our conversation on customer portfolio management, and will go into greater detail in the next article. This is a powerful strategy, and using it to create and manage your customer strategies will have a profound impact on your profitability and customer experience. **BNE**

dream of going to a board meeting without knowing your financial numbers, and likewise you shouldn't dream of going without being prepared to discuss these customer profit groups.

Let me show you why having this

discussion about customer profitability groups is so important. The Executive CPM Dashboard in Figure 1 is from a CPM system my team and I have constructed. You should be taking something like this to your board meetings.