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Leveraging Data to Acquire New Customers

Uncovering Opportunities for Banks

Innovation Insights

For the better part of the past 20 years, the financial services sector has reshaped its approach by not thinking at the market level anymore but at the customer one, by realizing that every step of the client interaction process needs to be approached with personal and tailored care. Traditionally, this process will stop at a high-level view: basic demographic and socio-economic data points will make up most of the understanding. But this vision is maxed out, Banks have no choice but to dive within the granularity of each (potential) customer separately. Data being the lifeblood of the modern banking industry, it enables banks to gain insights into customer behavior, preferences, and needs. By leveraging data, banks can create tailored marketing campaigns, enhance customer experiences, make informed decisions regarding product development, and, crucially, perform customer segmentation to target the right audience, resulting in impact creation and lead generation that would then transform into new revenue streams.

In this article, we will explore how banks can harness the potential of data to attract new customers, discuss the differences in approaching new customers for existing products versus new products, and delve into the importance of customer segmentation in the process.

Identify the niche target

Delve into a proper segmentation

Leverage the right tools and invest in them

Develop accurate insights and adjust the approach accordingly

Create a tailored market approach and deliver the impact

The segmentation strategy construct

Customer Segmentation: The Foundation of Strategy

Customer segmentation is a critical step in the process of acquiring new customers. It involves dividing the target audience into distinct groups based on multiple factors such as demographics, behaviors, needs, and preferences. Here's how data can make a difference in this process:

1. **Demographic Segmentation:** Data can provide valuable information about customers' age, income, location, and other demographic details. For example, banks can use census data and customer records to identify potential new customers in specific regions or age groups.

2. **Behavioral Segmentation:** Data can track customer behavior, such as transaction history and online interactions. By analyzing this data, banks can identify customers who frequently use certain banking services or show interest in specific financial products.

3. **Psychographic Segmentation:** This approach focuses on customers' lifestyles, values, and interests. Banks can use surveys and data analytics to identify customers who align with the values promoted by the bank, making them more likely to become loyal customers.

4. **Geographic Segmentation:** Geographic data can help banks identify areas with a higher demand for specific banking services or products. For instance, in areas with a growing small business community, banks can target entrepreneurs with tailored business banking solutions.

5. **Technographic Segmentation:** With the increasing importance of digital banking, understanding customers' technology preferences is crucial. Data on device usage, online behaviors, and preferred digital platforms can help banks align their services with customer expectations.

Leveraging these factors to develop a proper market segmentation requires a curated process that can be divided in 5 key steps:

Step 1	Define your target customer personas
Step 2	Identify the multiple criterias to create the segmentation logic
Step 3	Analyze the available data & develop a collection strategy if need be
Step 4	Drive out the preliminary insights
Step 5	Using the chosen criterias, delve into the proper segmentation

Source: Thomson Data

Tools and Methods for Data Capture

To capture the necessary data for customer segmentation, banks can employ various tools and methods:

1. **Core Banking System:** As a data source, the Core Banking System (CBS) and most specifically its Customer Information System (CIS) remains one of the most insightful tools for banks. From contact information to product and transaction history, the general ledgers they provide are among the strongest data sources out there.

However, especially in the case of legacy systems, CIS are traditionally only available to sales and branch employees, with basic information displayed. But according to a report by Gartner, CISs are transforming, and they now need to showcase information such as client segmentation, cross-selling opportunities, and behavioral analysis, to allow for real-time impactful decision-making. Such transformation is however depending on a smart integration of Customer Relationship Management capabilities as explained hereby.

> **“Thanks to its use of analytics, a bank in Asia was able to achieve, according to its own analysis, an average 53% less expensive Customer Acquisition Cost (CAC) than the industry average, as well as a 30% less expensive remarketing CAC. This was made possible by analyzing the bank’s existing loan behavior profiles, as well as their transaction and spending habits.”**

2. **Customer Relationship Management (CRM) Software:** CRM software helps banks collect and manage customer data, including contact information, transaction history, and communication preferences. Wells Fargo, a major bank, was facing several challenges in managing and serving its extensive customer base, which included retail banking, wealth management, and corporate banking clients. This was mainly due to fragmented customer data, scattered across various departments, making it challenging to gain a holistic view of each customer's relationship with the bank, limited cross-selling and upselling and a low customer engagement. The bank decided to implement Salesforce CRM to consolidate customer data and gain insights into customer behavior, allowing them to support decision-making with a 360° view of their customers segments.

   Hence, they employed segmentation for personalized services, leading to improved retention, improved efficiency, increased cross-selling, and enhanced customer engagement. The CRM streamlined operations and contributed to their success as a customer-centric bank.

3. **Online Surveys:** Banks can use online surveys to gather information directly from customers, including their needs, preferences, and feedback on existing products. One example of a bank successfully using online surveys for market research and customer feedback Is TD Bank, a prominent financial institution in North America. In 2021, TD Bank published a survey they ran in partnership with Ipsos showcasing that more than 50% of Canadians were now concerned about financial fraud, in comparison to 13% one year before.

   One can argue that the said survey allowed to understand not only a growing concern by the banking client base but also a necessity to provide products and services adapted to the concern, such as the TD MySpend App, that helps clients track in real-time their spending and identify out-of-the ordinary activities. As such, the bank can reinforce its client retention but also increase its client acquisition rate.

4. **Data Analytics Platforms:** Advanced data analytics platforms, such as Tableau, can help banks analyze large datasets to identify patterns and trends in customer behavior.

As an example, JPMorgan Chase employed data visualization tools to integrate and cleanse data from various sources including transaction records, customer interactions, and account data, segment customers, and create custom dashboards for real-time analytics. This approach resulted in a deeper understanding of customer behavior, more precise customer segmentation, swift data-driven decision-making, improved customer experiences through journey mapping, and a competitive advantage in the banking sector. Data visualization empowered the bank to stay ahead of customer expectations and continuously enhance its services.

> **“The infinity of data points available through Core Banking Systems, CISs, CMSs, CRMs and other platform call for an integration of the data strategy. To identify the right insights, and most importantly increase their foresight capabilities, financial institutions need to rely on partners proposing an efficient API ecosystem that will allow them to maximize the data’s value.”**

5. **Social Media Analytics:** Banks can use social media listening tools to gain insights into what customers are saying about their products and services on social platforms. American Express, the credit card giant, has garnered recognition from social media marketing experts for its adept utilization of influencer marketing campaigns. They initiated their success by analyzing the audiences of top influencers. This led to a strategic decision: collaborating with influencers whose followers closely resembled their target demographic. Under the #AmexAmbassadors initiative, American Express partnered with influencers to curate social media content featuring stylish individuals in idyllic settings. Crucially, these posts include the #AmexAmbassadors hashtag and a shoutout to AmEx's Instagram account in the captions. By aligning influencers' aspirational lifestyles with its brand, American Express effectively associates itself with luxury, potentially enticing individuals to consider obtaining an Amex card.

6. **Market Research Firms:** Collaborating with market research firms can provide banks with in-depth market insights and customer profiling. Several reputable market research firms, including Nielsen, Kantar, GfK, Ipsos, MarketResearch.com, J.D. Power, Forrester Research, YouGov, Mintel, and Statista, specialize in providing valuable data about customers to support decision-making.

   These firms offer comprehensive services such as consumer insights, market segmentation, customer experience research, and sentiment analysis, aiding businesses in understanding consumer behavior and preferences, targeting their customer base effectively, and making data-driven decisions to improve products and services.

7. **Lead Scoring:** Lead scoring is widely employed by companies across different industries to enhance lead qualification and prioritize sales efforts effectively. Lead scoring allows to assign a value to potential leads, based on several attributes and data points, that previous successful and unsuccessful lead have allowed to collect, thus helping marketing and sales teams create scoring models leading to an adjustment of their strategy for maximum return on investment. Demographic information, online behavior, email, and social engagement are for example measured to help identify targets more likely to engage with the business. For instance, HubSpot uses lead scoring to assess leads based on engagement with content, Salesforce offers lead scoring in its CRM platform, and technology giants like IBM apply lead scoring to automate and prioritize lead qualification.

Having a heterogeneous strategy in terms of tools and methods is of course necessary. Banks need to have a holistic approach, but they also need to leverage the right technologies. The infinity of data points available through Core Banking Systems, CISs, CMSs, CRMs and other platform call for an integration of the data strategy. To identify the right insights, and most importantly increase their foresight capabilities, financial institutions need to develop an efficient API ecosystem that will allow them to maximize the data's value. Having access to data-rich API ecosystems is now a must for acquisition efficiency.

The Power of Segmentation in Strategic Decision-Making and customers' acquisition

Segmentation is a powerful tool that helps banks acquire new customers by allowing them to target their marketing efforts more effectively and provide tailored products and services. Here are several ways in which segmentation plays a crucial role in customer acquisition for banks:

1. **Precise Targeting:** Segmentation divides the broader customer base into smaller, more specific groups based on shared characteristics such as demographics, behavior, or needs.

   By identifying these segments, banks can tailor their marketing strategies to address the unique needs and preferences of each group. This precision in targeting ensures that marketing messages resonate with potential customers, increasing the likelihood of conversion.

2. **Personalized Marketing:** Once banks have identified customer segments, they can create personalized marketing campaigns that speak directly to the interests and pain points of each group. Personalization enhances the customer experience and fosters a sense of connection, which can significantly improve the chances of acquiring new customers.

3. **Existing Products Adjustment:** Through segmentation, banks can gain insights into the specific challenges and expectations of different customer segments when it comes to existing offers. One of the key leverages to capture this information is analyzing existing customers' feedback. It informs product development and marketing, allowing banks to adjust existing products in terms of features, experience, and strategy to better meet the demands of each segment. Improved products have a ripple effect of retaining existing customers and attracting new ones within the target segment.

4. **New Products Development:**
Segmentation enables a company to identify gaps in the market or unmet needs within specific customer segments. By analyzing the data from different segments, companies can pinpoint areas where customers are looking for solutions. This information can support innovation decision by giving crucial insights to product team while tailoring features, functionalities, experience, etc. to align with the specific requirements of each segment. By developing products that cater to the unique requirements of different customer segments, companies ensure that the new product is relevant and valuable to the target audience, increasing its appeal to potential customers, and can position themselves as customer-centric and innovative, ultimately attracting a broader customer base while retaining and satisfying existing customers.

5. **Real-time Banking Experience:**
Whether via a digital or physical channel, customer acquisition and onboarding lifetime has been made much shorter thanks to the power of analytics. The instant use of customer data and its immediate analysis (KYC, segmentation, etc.) thanks to embedded analytics tools and sources allows for immediate product eligibility verdict and seamless experiences, allowing both for customer satisfaction and bank's brand image development.
For instance, banks can drive a higher client acquisition return value thanks to data by embedding several data patterns leading to inisghts events in their Core Banking Systems. A client could very well immediately be offered a credit card upgrade if his consistent spending reaches a certain level over the course of a timeframe.

6. **Tailored Communication Channels:**
Different customer segments may prefer various communication channels. Some may be more responsive to email marketing, while others may prefer social media or in-person interactions. Segmentation helps banks identify the most effective channels for reaching each segment, maximizing the impact of their marketing efforts.

7. **Pricing Strategies**: Segmentation provides insights into the price sensitivity of different customer segments. Banks can optimize pricing strategies to align with the financial expectations of each group, making their products more attractive and competitive in the eyes of potential customers.

8. **Customer Service Enhancement:** By understanding the unique needs and preferences of different segments, banks can tailor their customer service and support offerings. This customization enhances the overall customer experience, making it more likely that new customers will choose the bank and remain loyal over time.

9. **Improved Product Positioning:** Knowing the distinct characteristics and preferences of customer segments allows banks to position their products and services effectively. The right product positioning can differentiate the bank from competitors and attract customers who identify with the bank's value proposition.

10. **Referral Opportunities:** Satisfied customers within a particular segment are more likely to refer friends and family who belong to the same segment. By focusing on segment-specific customer satisfaction, banks can generate a network effect, leading to referrals and the acquisition of new customers.

11. **Data-Driven Decision-Making:** Segment-specific data enables banks to make informed decisions about their marketing strategies and product development. It eliminates the need for one-size-fits-all approaches, ensuring that resources are allocated efficiently and that strategies are tailored to maximize customer acquisition.

By leveraging the above-cited strategies, banks do not only manage a greater reach, but a more efficient one. Thanks to its use of analytics, a bank in Asia was able to achieve, according to its own analysis, an average 53% less expensive Customer Acquisition Cost (CAC) than the industry average, as well as a 30% less expensive remarketing CAC. This was made possible by analyzing the bank’s existing loan behavior profiles, as well as their transaction and spending habits.

> **“For instance, banks can drive a higher client acquisition return value thanks to data by relying on event-based systems such as mature Card Management Systems. These “events” would alert the bank on an otherwise undetected upselling opportunity. A client could very well immediately be offered a credit card upgrade if his consistent spending reaches a certain level over the course of a timeframe.”**

Conclusion

In the realm of modern banking, using data efficiently and in a manner aligned with the company's strategy and objectives can reveal itself being tangibly impactful. Applying data to a segmentation strategy can have a number of major outcomes, among which mainly: an enhanced customer-centric brand image, but also a strengthened financial performance thanks to a better allocation of resources and efficient course of action allowing for a better return on investment. The list of stakeholders positively impacted therefore ranging from clients to shareholders through employees and partners.

Data is a game-changer, and customer segmentation is the compass guiding strategic decision-making; those who embrace data-driven approaches and segmentation will undoubtedly have a competitive edge in acquiring and retaining customers, ensuring long-term success in an ever-changing financial landscape, where hyper-personalization is becoming a standard expectation from clients and a leverage for institutions willing to differentiate.

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