Increasing Retail Banking Profitability through CRM: the UniCredito Italiano Case History

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In Italy (2001):
- 1st in Operating Income and Market Capitalization
- 2nd in Interest Margin and Income from Banking Activities
- 7 Banks
- Full Retail & Corporate Banking services
- 6.5 millions retail customers
- 2,924 branches

In Europe (2001):
- 3rd in pre-tax RoE (28.9%)
- 5th in Cost to Income Ratio (55.2%)
AGENDA

• Business Objectives
• CRM Organization and Processes
• CRM Information System
• Project Roadmap and Methodology
• Achieved Results
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Customer Relationship Management (CRM) is a business strategy aimed at:

- Increasing customer \textit{profitability} over time
- Maximizing customer \textit{satisfaction}

through a mix of:

- Business Processes
- Organization Steps
- People’s Skills
- Enabling Technologies

Source: Gartner Group
CRM PROJECT MISSION AND OBJECTIVES

Mission
To deploy a CRM System supporting UniCredito’s CRM Business Strategy in Retail Banking for Italian Banks

Objectives
- To improve effectiveness of marketing campaigns through better targeting
- To retain most profitable customers
- To increase customers’ wallet share
- To improve customer satisfaction by offering
  - The right product
  - At the right time
  - Through the right channel
- To provide a customer-centric view throughout the organization

Business Benefits
- Increased Profitability
- Improved Cross-selling
- Decreased Attrition Rate
- Increased Propensity-to-buy
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Hence:

- dedicated CRM Business Unit managing the whole strategy
- specific functions of the Business Unit managing each phase of the CRM process
For each customer define predictive indicators and KPIs to track over time

Identify clusters of customers, having relevant business features, to consistently address...
CRM PROCESS: CAMPAIGN MANAGEMENT

- Bank defines contents, demands consultancy and decides
- CRM Business Unit designs and plans marketing operations as well as defines related analytics, and eventually measures results

**CAMPAIGN DEFINITION**
- Bank
  - Define contents: 
    - Macro-target 
    - Budget 
    - Timing 
    - Media mix

**SEGMENTATION & PLANNING**
- Target endorsement 
- Planning endorsement

**CAMPAIGN EXECUTION**
- Branches 
- Account Managers

**ASSESSMENT**
- Sharing of Results 
- Business evaluation

**CRM Business Unit**
- Verify consistency 
- Analysis and segmentation 
- Targeting 
- Campaign Planning 

**Target Selection**
- Direct Mail 
- Call Center 
- Internet 
- Ads 
-...

- Evaluation of Results 
- Learning from experience
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THE MARKETING PROCESS: CLOSING THE LOOP

- Where are we now?
- What strategy?
- What have we achieved?
- Measurement

Operational CRM
- Marketing Automation
- Marketing Operations
- Campaign Execution

Customer Intelligence

Track

Analyze
- Business Intelligence
- Data Mining

Plan

Execute

Source: Gartner Group
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CRM FRAMEWORK

CUSTOMER RELATIONSHIP MANAGEMENT

CUSTOMER DATA WAREHOUSE

QUERY & REPORTING

OLAP

DATA MINING

MARKETING AUTOMATION

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CUSTOMER DATA WAREHOUSE

● Overview
  • Heart of CRM System
  • Pre-defined Data Model for Retail Banking
  • “Light” Personalization
  • Data History: 24 on-line Monthly Snapshots

● Facts
  • Product Ownership
  • Statement Balance
  • Transaction Amt.
  • Profitability
  • Contacts (I/O)

● Size
  • Current Size: 750+ GB
  • Final Estimated Size: 3 TB

● Monthly Records
  • Customer Personal Data: 6 millions
  • Checking Account Transactions: 13 millions
  • Profitability: 14 millions
  • Total: 95 millions

● Dimensions
  • Customer
  • Household
  • Product Type
  • Channel
  • Geography
  • Bank Organization
  • Campaign

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OLAP, Query & Reporting

- OLAP Analysis:
  - Drill down
  - Roll up
  - Slice & dice

- Query & Reporting through Web browser

- 11 OLAP Cubes, 30 business users

- Support Marketing Product & Segment Managers in better business understanding and campaign macro-targeting

WHAT’S HOT:
- Cross-selling Cubes
SAS Enterprise Miner

- Brain of CRM System, turns data into valuable information supporting business decisions
- Predictive Analysis and Market Basket Analysis through statistical modeling
- Scoring of Customers based on their propensity-to-buy

WHAT’S HOT:
- Attrition Analysis supporting Customer Retention Programme
- Customer Lifetime Value Analysis
- Multi-banking Customer Analysis
### Campaign Manager

- Support definition & management of multi-stage multi-channel marketing campaigns
- Definition of customer segments and profiles
- Connect Target Information (Customer names & addresses) to multiple Touchpoint
- Execute Response Analysis and compute ROI for each campaign

### WHAT’S HOT:
- Event - triggered Campaign Management
- Life Cycle Campaign Management
LOGICAL SYSTEM ARCHITECTURE

Legacy Systems
- Customer Data
- Deposit Accounts
- Brokerage Accounts
- Loans
- Cards
- Transactions
- Profitability
- Contacts

Data Warehousing
- Operational Data Store
- Customer Data Warehouse
- Oracle Enterprise Server 8i
- SAS Warehouse Administrator
  - EXTRACT
  - TRANSFORM
  - AGGREGATE
  - CLEANSE
  - BUILD HISTORY
  - LOAD

CRM Applications
- OLAP Cubes
  - OLAP Query & Reporting
- Campaign Management
  - Track
  - Plan
  - Execute
  - Analyze
- Multi-channel Information Delivery Sys.
- SAS Enterprise Miner
  - Data Mining
- Customer Relationship Management System

Channels
- Web
- E-mail
- Relationship Manager
- Call Center
- Direct Mail

Customer Relationship Management System
• SAS Warehouse Administrator as ETL Tool
• Operational consulting activities for ODS Data Feed
• RME (Rapid Modeling Environment), application written in SAS, as flattening and scoring tool for Enterprise Miner’s I/O
• SAS Enterprise Miner as Data Mining application
CASE STUDY – SMALL BUSINESS PACKAGE CAMPAIGN CHAID

Conversions from a traditional checking account to a small business package account

Sample Average = 12.2 %

COLOR KEY


Number of Accounts

< 1.5

>= 1.5

32 %

Overdraft

Profit Margin

< 51.32 EUR

>= 51.32 EUR

37.8 %

Number of Monthly Transactions

< 4.5

>= 4.5

23.6 %

 Average Monthly Balance

< 5854.84 EUR

>= 5854.84 EUR

41.7 %

27.6 %
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Phase 1: Proof-of-Concept
- Development in 6 months
- One bank
- Subset of Data
- Data Mining + Campaign Manager
- Early & tangible Business benefits

Phase 2: Full CRM System
- One bank
- Data enhancement
- + Business Intelligence
- Complete Infrastructure:
  - Process Automation
  - Test Environment
  - Full System Mgmt.

Phase 3: Enterprise-level deployment
- Integration of other banks
- + Web Channel
- Channel Integration

Start date: July 1999
A risky trend in CRM is to mainly consider technology and front-end systems, disregarding the underlying components ...
CHOOSING A PRAGMATIC PROJECT SCOPE

Old approach:
- Broad Project Scope ("do everything")
- Emphasis just on link between applications and data

New approach:
- More restricted Project Scope
- Emphasis on:
  - Fast delivery
  - Match of applications, data, processes and behaviour

We need to manage the integration of applications, data, processes and behaviour to achieve real business benefits!!

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Increased Scope in each iteration:

- One Business Objective
- New Subject Areas
- New User Requirements
CRITICAL SUCCESS FACTORS

- ORGANIZATION
  - Sponsorship from Top Management
  - Dedicated CRM Business Unit

- PROCESS
  - Quick Wins: rapid prototyping able to produce immediate and tangible business benefits
  - Clear definition of business objectives to be achieved and related metrics to track CRM results

- TECHNOLOGY
  - Approach: ‘Buy’ versus ‘Make’
  - Choice of Best-of-breed applications, having standard integration with Data Warehouse Metadata
  - Data Quality / ETL Process (“garbage in, garbage out”)

- PEOPLE
  - Marketing and I.T. skills in the same business unit
  - On-going education of internal customers on CRM
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### KPIs TO MEASURE CRM SUCCESS

"If you can’t measure it, you can’t manage it”

*(John F. Welch, Chairman and CEO, General Electric, 1981 – 2001)*

<table>
<thead>
<tr>
<th>Objective</th>
<th>Key Performance Indicator</th>
</tr>
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<tbody>
<tr>
<td>To improve effectiveness of marketing campaigns</td>
<td>Redemption Lift</td>
</tr>
<tr>
<td></td>
<td>Campaign ROI</td>
</tr>
<tr>
<td>To retain most profitable customers</td>
<td>Retention Rate</td>
</tr>
<tr>
<td>To increase customers’ wallet share</td>
<td>Customer Net Present Value (NPV)</td>
</tr>
<tr>
<td></td>
<td>Customer Lifetime Value (LTV)</td>
</tr>
<tr>
<td>To improve customer satisfaction</td>
<td>Customer Satisfaction Index (CSI)</td>
</tr>
</tbody>
</table>
- Campaign Redemption increase from no CRM to Pilot CRM: 126%
- Campaign Redemption increase from Pilot CRM to Full CRM: 90%
- Total Redemption increase from no CRM to Full CRM: 329%
ROI ON 2001 MARKETING CAMPAIGNS

Campaign Year (2001)

- Overall Return On Campaigns (ROI): 375 %
- Return due to better targeting (CRM ROI): 75 % (*)
- Profit Increase due to CRM: X (millions Euros)

Life Time

A product sold in one year brings profits, due to its usage and yearly fee, also in the following years (until product life time) => CAMPAIGN LIFETIME VALUE

- Return due to better targeting: 540 %
- Profit Increase due to CRM: 7 X

(*) CRM ROI = CRM Net Margin / Total Costs

CRM Net Margin comes from a redemption increase due to better targeting made with Data Mining methodologies, as opposed to pseudo-casual Control Group data selection.
CONCLUSIONS

- CRM is a **business strategy**, and an effective implementation needs to be consistently managed through four layers:
  - organization
  - processes
  - people’s skills
  - technology

- Fast delivery of an **incremental business-driven project**

- Focus on most **profitable** customer segments
“Don’t count the people you reach, reach the people who count”
Thank you!

"Building a technological infrastructure may seem simply tricky. As a matter of fact, it is awfully more complex”

(IBM)

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