

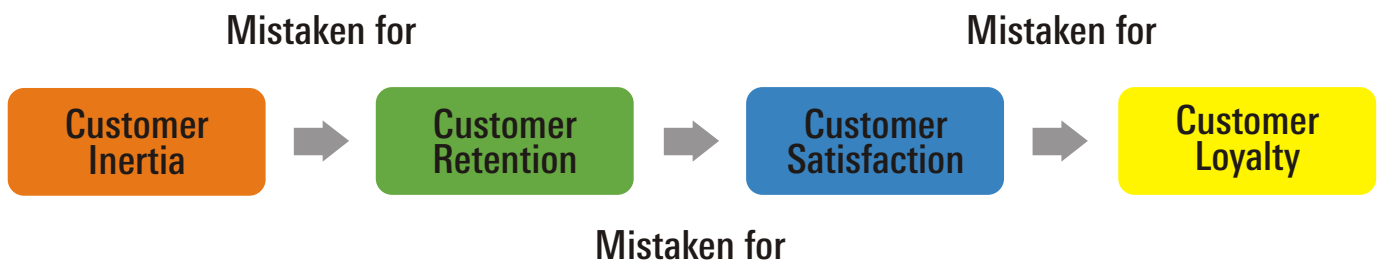
CEDAR VIEW



Loyalty Re-incarnated

Loyalty is dead. Long live loyalty. We aren't loyal to our jobs anymore, our homes, even spouses. Did someone say banks? Well unlikely. Then why do customers stay back with the same bank for ages. If they are not loyal, then maybe because they are satisfied. Not really. It's mostly inertia. Which is mistaken for

customer retention. Retention is construed as satisfaction, and to top it all, perceived satisfaction is assumed as loyalty. If the customer was really loyal, why does he have his cards with 2 other banks & his mortgage with the 3rd. Wake up & smell the coffee before the 'loyal' customers are all gone to the bank across the street in lure of a toaster.



Why loyalty programs?

In banking, where product differentiation & margins are low, customer loyalty is paramount. That's because the cost of acquiring a customer is high enough, plus there is effort required through increased spends, cross-sell etc to make them profitable.

Basically the idea is -

1. To increase value of lesser customers. Don't confuse this with activation. Customers who aren't even active with you can't become loyal overnight because you gave them a mixer-juicer. Activation, Retention, satisfaction etc will not get you your pricing premiums, share of wallet etc, that will come only from loyalty.

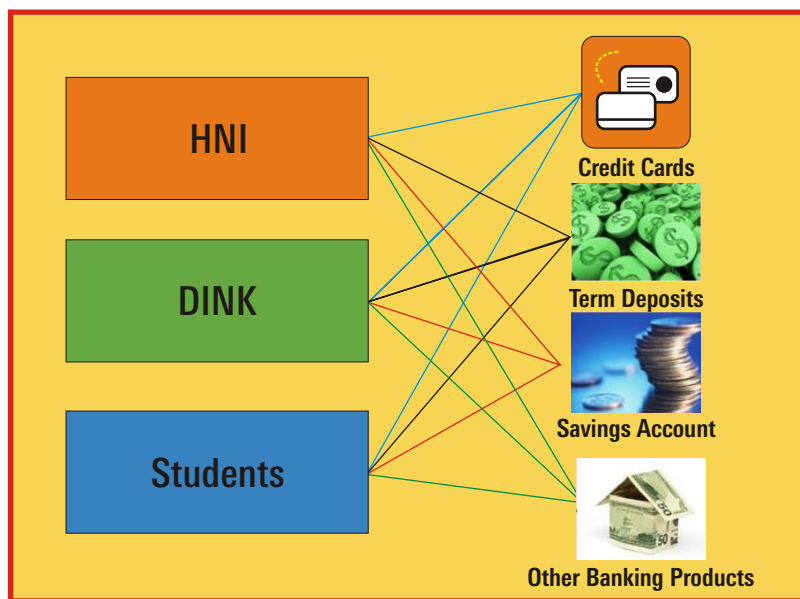
2. Create a bond with the high growth & high value customer segments rather than trying to drive sales for every customer, that is sales strategy & another story. Essentially, don't confuse loyalty with sales

Bottomline, if you don't have loyalty program, your cost of acquisition will go through the roof, you won't have any defense against competition buyout attacks on your premium customers & whoever are left won't make any money.

How to get the customers to start becoming loyal

High income group (\$125k+) are value seekers contrary to general assumptions, 80%+ are enrolled in loyalty programs & ~90% have even redeemed points for rewards at some point in time. However only 40% of these have credit cards & 20% mortgage with their main bank, so does that tell us that existing loyalty programs are not working! Yes.

The only way to get customers to stay loyal (read share of wallet over a sustained period of time) is to make sure the following



1. They are really satisfied with offering & service,
 2. Offer Real value through your loyalty programs &
 3. Establish brand connection.
- All 3 need to coexist if the customer is to be loyal.

1. Satisfaction

Only 40-50% of satisfied customers go back for repeat purchase. Also 70-75% defectors report being satisfied with previous seller. Its obvious that being satisfied is just not good enough, but essential, a critical hygiene factor. Customer satisfaction is basically the starting point for building loyalty, the baseline. With customers satisfied with their product/service experience, you can start thinking about their being loyal, without it don't even waste your time.

2. Offering value

Small appliances don't work any longer. Everyone has a loyalty program so what's the difference. Traditional loyalty mechanisms have been commoditized.

Value can only be offered if you are not rewarding everyone, or for the wrong behavior. Rewarding customers purely on product usage at a product level has 2 disadvantages:

A. You don't foster loyalty to the organisation, only to the product &

B. You end up rewarding everyone including (i) those who are buying only because they 'have to', & won't be impacted by the program, & (ii) free riders who can benefit without increasing spends.

Rewarding everyone also implies that at a per customer level,

there is only that 100-200 bps to play around with, hence no real value to the customers who need to be rewarded to make them loyal.

3. Brand connection

For the customer to be loyal, he must like you, emote with you as a brand. Hence it is critical that loyalty programs are targeted accurately at the right segment, we should not be wasting our money with a generic program for everyone. The program should

also be complemented with the right positioning & marketing, it is not a substitute to marketing.

Brand connection needs to be measured at regular intervals, so that the marketing effort & the loyalty program may be tweaked at the appropriate time.

Loyalty Strategy & Program Design Framework

1. Customer oriented loyalty program

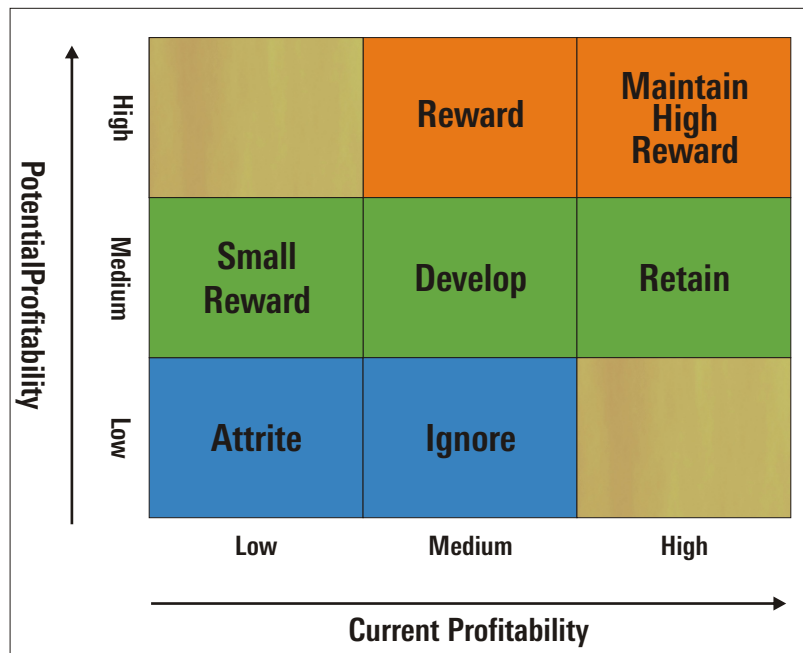
Customer oriented is the most misused word across banking. All

banks are customer oriented, although customers are not happy, I often wonder why.

Most loyalty programs today are product oriented. Each product such as cards, banking etc will have separate programs which reward him on product usage & not on overall relationship.

Develop a single program across products for each customer segment.

Customers can be segmented



along demographics, relationship (vintage, risk, channels), & product propensity. Loyalty points from across products usage can feed into each program. Examples are Citibank ThankYou points.

2. Earning loyalty points

We need to have a consolidated products earning grid based on share of wallet (# of products) & customer vintage. The customer can earn points on their deposits/investment balances, new

product sales, balance/loan transfers, transactions spends, preferred channel usage eg. Online etc. The calculator grid for each product should obviously be separate but made available online.

Customer Strategy

Customer strategy & rewards should be a function of customer profitability as well as potential profitability, i.e. loyalty.

Customers can be segmented as following in 9 quadrants with different relationship action points for each:

This will require the bank to calculate the current value of each customer across products, also build behavior scoring models to

predict future profitability. Importantly understand customer value migration as it evolves.

To sum up, creating loyalty is much more than offering freebies, it's about identifying the right customers & offering them the right products, experience & also valued rewards for transacting with you across all your products.



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