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Retail Banking Crossroads

(Product Varients to Customers' Varients)

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ABSTRACT

This paper is a study of cross-selling practices in Indian banking industry through the case study method. This study focuses on the prediction of cross-selling opportunities and attempts to answer the questions of who is likely to buy additional products from the same company, what the next product is likely to be and when the purchase is likely to be made? The banking industry regularly mounts campaigns to improve customer value by offering new products to existing customers. This approach gained momentum as a result of the increasing availability of customer data and improved analysis capabilities through data mining. The cross-selling practices in Indian banking sector are quite different. These differences emerge mainly from their different philosophy, background and distinct target customer segments. However, both sectors can learn from each other; public sector banks can introduce specialized training and incentives, whereas private sector banks need to introduce appropriate control mechanisms and avoid indiscriminate cross-selling. The study mainly focuses on state bank of India (SBI), the premier bank in the Indian banking sector.

1. INTRODUCTION

The past few years have seen the public sector banks rapidly introducing new products and services, such as the computerizating, rationalizing manpower, and launching a number of initiatives to improve their operating efficiencies.

On the other hand, new private sector banks have differentiated their operations by focusing on premier customers and superior standards in productivity, customer service, and operating efficiencies. Global best practices have been introduced and practiced, and more impotently they have built durable competencies by attracting the best manpower, building proprietary technologies and processes and creating a strong brand image. There are many ways to increase a company volume of business and revenues, but not all involve increasing the customer portfolio and market share. In most cases, companies ignore the advantage of increasing the value of their current customer base by using cross-selling techniques. Cross-selling allows the company to after products or service in addition to those already used by its customers, increasing their value for the company and, at the same time, generating greater value for them.

2. CONCEPT OF CROSS-SELLING

Cross-selling is an additional product/service to an existing customer. Relating it to the retail asset expansion scenario, it is generating new/additional retail asset(s) from a liability. In other words, if the bank is able to sell an asset product (housing/car/educational loan) to a savings/ current/deposit account holder successfully, then it is cross selling. In the present day retail banking scenario, systematic cross selling of assets is happening in some banks, but in most others, an integrated approach to retail asset expansion through cross selling is still at a nascent stage.

Cross-selling increases customer stickiness. It also helps increase profitability by decreasing expenses relative to revenues. The need for a large physical footprint is reduced – as is the need for a large number of bankers. Instead, the existing infrastructure is able to provide additional revenue from the same customers.

"(Cross-selling) is our most important customer-related sales metric. We want to earn 100 percent of our customers' business. The more products customers have with the better deal they get, the more loyal they are, and the longer they stay with the company, improving retention. Eighty percent of our revenue growth comes from selling more products to existing customers."

Commercial banks, especially the dominant public sector banks, have been facing competition from the new technology-savvy banks in the private sector. There are many new entrants, domestic as well as international, coming in to banking sector. This has created a need for improving the business efficiency and increasing the business volume of the public sector banks.

3. CROSS-SELLING IN BANKING INDUSTRY

Globally, cross selling is a major component of the business of banks. In India too, it is catching up fast with several of the banks of the State Bank Group already making headway in selling products of other group banks and subsidiaries in the insurance and capital market services. Other banks are also building this business in an aggressive manner. Cross selling would help in banks boosting the fee income.

Heads of Retail Banking and Marketing Managers who want to understand industry best practice and the lessons they can derive for their own business from others' recent experiences – both good and bad - so they can make a realistic assessment of their own prospects for cross-selling success.

Increasing competition and recent market volatility worldwide have eroded both customer loyalty and profit margins. In an environment like this, a company's survival depends on its ability to maximize customer value by effectively marketing additional products and services to customers.

Bank proposes to integrate on a common site all the arms of the State Bank Group, which would enable cross selling. A long term IT strategy has been drawn, which will see the bank moving away from being product oriented to becoming business driven with IT as enabler. Call centers, ATMs and self-service terminals, Internet banking, mobile banking, e-commerce and e-cash / smart cards are other planks of bank's It strategy.

4. LITERATURE REVIEW

The Celent Report on Cross Sell Ratio (the number of products per client) in retail banking, which analyzed the strategies adopted by leading retail banks in Europe to increase the cross sell ratio, lists the cross sell ratio among banks in different countries. The ratio is 2 for the US and slightly above 2 for the UK and Germany, above 2.5 for France and a high 3 for Scandinavia. In addition, the traditional banks (all customers) with a cross sell ratio of 2.5 out performed the internet banks with a ratio of only 2. Another research study observed that selling three products to a customer who already holds one increases profitability by up to 500%. This makes a strong case for scientific cross selling initiatives by banks.

The resultant increase in retail asset base will work out to Rs 600 crore, a 20% increase over the existing retail asset book, that too from the existing customer base. The figures are calculated based on the simple premise of same strike rate for all types of deposit accounts. If the bank budgets for different cross selling targets and strike rates based on their customer database and their cross selling model, the results will be more rewarding.

5. RATIONALE OF CROSS-SELLING

- The prime point for cross selling is the cost factor. It zeroes in on the cost of new customer acquisition for asset expansion and the cost of cross selling to an existing customer.
- According to *Money* magazine, it costs a bank five times less to cross sell an

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existing client than to acquire a new one. Another finding says that it costs four times as much to get a new customer as it does to keep an existing one. The underlying is the cost advantage of selling to an existing client.

- The second important reason is the profit. Cross selling an asset/additional asset product to an existing customer improves the profits, in general, and profits per customer, in particular.
- Cross selling fosters brand loyalty. A customer who has availed himself of more than one product from the bank is drawn closer to the bank than a customer who has taken only one product. If a customer having a savings account has taken a consumer/personal loan, the chances of switching to another bank is less than when he has only savings account. If, in addition, he takes a housing loan or any mortgage product, the chances of bank hopping reduces further.
- Research studies have established that the percentage of loyalty increases with the number of products the customer takes. The reasons may be for convenience, service, price and value offerings by the bank for the total product solutions to the customer.
- Cross selling helps banks to plan, implement and maintain better customer relationship management programme as it gives clarity to developing plans based on the customers' relationship profile.

6. POTENTIALS FOR CROSS SELLING

The success of a cross selling programme stems from the potential available for the same. A research study of a sample of rural, semi-urban, urban and metro customers revealed that the percentage of savings, current and term deposit customers who have additionally taken a credit product from the bank is very low indicating the enormous scope for cross selling. The scope may be determined by the percentage of total asset accounts to the total deposit accounts after applying discounting and filtering tools based on segments, incomes and existing relationship.

7. THE EFFECTIVE KEY OF CROSS-SELLING

The SBI top brass has given the employees a heavy mandate to fulfill - at least 50% of all new customers of housing loans, car loans and tractor loans should be covered by SBI Life's insurance products. It is not just insurance that is being given a major push. The banking behemoth's management is also ensuring that adequate number of the branches sell the group's mutual fund products and credit cards to push the total income. SBI is not alone. ICICI Bank, the country's second largest bank after SBI, is also working on a similar strategy - to cross-sell products to its 10-million strong customer base. The bank today boasts of 50% of its credit card sales coming from the bank's depositor base.

S Krishnamurthy, chief executive officer, SBI Life, said, "We have been able to cover 50% of borrowers of fresh home loans. Since December, we have underwritten about 1,200 home loan proposals each month. Against SBI's expectation of disbursing 2,00,000 home loans in fiscal 2005, we have targeted to cover 1,00,000 of these borrowers."

According to a recent market study, 87% of Indian banks have made no attempt to cross-sell or up-sell related banking products during the course of customer interaction. "Most of the time, even if customers are themselves enquiring about other bank products, 43% of Indian banks have failed to respond to customers' inquiries," the report pointed out.

McKinsey & Co, a global consultancy firm said, "Banks lack cross-selling capabilities at the branch level, partly as a result of lack of incentive and the fact that banking products have always been bought and not sold."

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