

## HOW TO ENHANCE CROSS-SELLING IN RETAIL BANKING?

### KAKO POBOLJŠATI UNAKRSNU PRODAJU SEKTORU STANOVNIŠTVA U BANKARSTVU

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**Abstract:** *In today's competitive and turbulent marketplace, the race for business growth has become incredibly intense. Instead of capital-intensive expansion strategies, many companies, therefore, attempt to leverage their current customer relations, which provide growth opportunities with low initial investments and low levels of risk.*

*This paper aims to provide some evidence about the importance of the usage of segmentation analysis in cross-selling strategy development.*

**Key words:** *Cross-Selling, Retail Banking, Bank Clients Segmentation, Marketing Strategy*

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**Sadržaj:** *U današnjem konkurentnom i burnom tržištu, trka za rast poslovanja je postala još intenzivnija. Umesto kapitalno-intenzivnih strategija proširenja, mnoge kompanije, pokušavaju da poboljšaju svoje trenutne odnose sa klijentima, koji pružaju izvanredne mogućnosti rasta, koristeći niska početna ulaganja i nizak nivo rizika. Ovaj rad ima za cilj da pruži dokaze o značaju korišćenja segmentacione analize tokom razvoja unakrsne strategije prodaje.*

**Ključne reči:** *unakrsna prodaja, sektor stanovništva u bankarstvu, segmentacija bankaklijenti, marketing strategija*

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“**T**here are only three ways a company can grow. First, earn more business from your current customers. Second, attract customers from your competitors. Or third, buy another company. If you can't do the first, what makes you think you can earn more business from your competitors' customers or from customers you buy through acquisition?” - John Stumpf, chairman and CEO, Wells Fargo [1].

There are two main strategies for sales/income growth that have been suggested in the marketing literature. A company can generate more sales from existing customers (organic growth) or it can obtain additional sales as a result of acquiring new customers (non-organic growth), who are either new to the market or have been previously buying another/competitors' brands (Figure 1).

Companies could benefit from focusing on existing customers instead of constantly acquiring new ones, and a common sales strategy for doing so is known as cross-selling. Cross-selling leverages current customer relationships by selling additional products to the same customer, which gives companies the opportunity to expand their customer relationships into product areas the customer has not considered previously and thereby increase sales [2].

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**Figure 1: Sales growth sources**

*Source: Младенова, Г. Маркетинг на финансовите услуги. С.: Универзитетски издателски комплекс, УНСС. 201 [3].*

From a customer perspective, cross-selling entails an offer of customized solutions or the provision of a full assortment of products and services. Instead of meeting a narrow need with a product from a single product division, customers can purchase products from a single provider to cover a wide range of needs [4].

For the provider or vendor, cross-selling refers to a strategy of selling additional products to a customer who already has purchased, in an attempt to increase the customer's reliance on the supplier and decrease the likelihood -of switching to another provider [5].

When cross-selling is successful, companies gain a greater share of the customer's wallet, which generally results in more stable business growth rates, stronger customer ties, less customer churn, and sustainable competitive advantages [5], [6]. As Timothy et al. [7] noted, efforts to improve its share of the customer's wallet can add as much as ten times more value to a company than focusing on just retaining customers.

Another approach to leverage from existing customers is "up-selling": inducing the customer to buy enhanced products, upgrades and add-ons or to use products more actively. Given that the costs of acquiring new customers are increasing, cross-selling and up-selling represent cost-effective means of generating further business from existing customers.

In seeking to cross-sell different products to existing customers, managers hope to both grow revenue and discourage customer defection though deepening the relationship and increasing the costs of switching. Investments in CRM, product discounts and staff training are often made in anticipation of improved cross-selling related loyalty metrics. Therefore, cross-selling could cause positive influence to both the company revenue and its cost levels and structure and the benefits from successful cross-sells could be associated with:

- Strengthening the relationship between financial providers and their customers as well as creating potential for further opportunities.
- Increasing product holding that leads to a great number of connection points with customers.

- Increasing the switching costs customers would face if they decided to take their custom elsewhere.
- Reducing the likelihood of customers' switching to another provider.
- Considerably reducing customer acquisition costs and also serving, marketing and communication costs and thereby increases the profit earning capacity of the concerned unit.
- Increasing the data that company can get to know its customers better through a greater understanding of buying patterns and preferences. This, in turn, puts it in a better position to develop offerings that meet customer needs.
- Increasing the levels of customer satisfaction, loyalty, and a higher overall level of spending per customer.
- Helping in building brand value, if the loyalty of the customers could be ensured for the brand.



Thus, cross-selling can be considered an important vehicle for bank institutions to use in support of their customer relationship strategies. Despite the theoretical merit of cross-selling as a customer relationship strategy, not all cross-selling initiatives are successful. The reason that many cross-selling initiatives fail is not the strategy behind them, but rather how they are implemented.

Cross-selling has become a priority for many banks in recent years. It ranks as a top strategic importance for many industries including financial services, insurance, health care, accounting, telecommunications, airlines,

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and retailing. Despite the increasing investment in cross-selling programs, companies find that these broad and expensive marketing campaigns are not profitable [8], [9], [10]. The average response rate as measured by a customer purchase within three months after a cross-selling campaign is about 2 percent [9], [11]. A managerial challenge is to improve the response rates of a cross-selling campaign while avoiding the targeting of customers with irrelevant messages. Yet, it appears, many banks may be far from realizing the full potential of cross-selling.

Banks have been using cross sell as a marketing approach to expand their footprint and also to increase their customer base. It is well known that the incremental cost of selling to current customers is generally lower than to new customers. Recognizing this, banks have, over the years, invested heavily in cross-selling to increase wallet share.

Successful efforts to address deficiencies in cross-selling may depend on a more refined understanding the consumer segments that banks target to capture higher wallet share. Analyzing product ownership behaviors, Deloitte Center for Financial Services [12] has grouped bank clients into four general segments according to the number of products owned with the primary (main) bank and other financial institutions (Figure 2): Basic users, Value shoppers, Diversifiers, Consolidators.

We state that banks have an opportunity to be more effective in cross-selling if they consider the segments which have been mentioned above. Banks will likely need to revisit traditional cross-selling strategies, which typically focus on product ownership and demographics. They should consider going beyond demographics and understand the behavioral and attitudinal characteristics of segments to predict cross-selling success and to devise distinct marketing strategies to further their relationship with each of the groups.

products owned with the other financial institutions	<b>Products owned with the primary (main) bank</b>	
	<b>Low/ less than three products</b>	<b>High/ three or more products</b>
	<p><b>VALUE SHOPPERS</b></p> <p>Segment size (% of all) – 39%, the second-largest segment and the least loyal one                      Average products holding with primary bank – 1.1                      Average products holding with other financial institution – 4.3</p> <p><b>Segment profile</b></p> <ul style="list-style-type: none"> <li>✓ Demographics: Aged 45+, moderate-to-high income; tend to shop for best value to meet their mature banking needs</li> <li>✓ Bank behavior: Although they own an average of 4.9 products in total, they have an average of only 1.1 products with their primary bank — the lowest proportion among the four segments. That means that value shoppers rely less on primary banks for their product needs across most products</li> <li>✓ Attitude toward banks: Most likely to switch banks if checking account fee is increased; have least favorable perceptions of primary bank</li> <li>✓ Channel preferences: Second highest users of bank branches and digital channels (mobile banking and online payments)</li> </ul>	<p><b>DIVERSIFIERS</b></p> <p>Segment size (% of all) – 10%                      Average products holding with primary bank – 3.6                      Average products holding with other financial institution – 4.3</p> <p><b>Segment profile</b></p> <ul style="list-style-type: none"> <li>✓ Demographics: Most affluent respondents primarily aged 45+ with diversified banking needs</li> <li>✓ Bank behavior: Significant proportions (47 percent) of diversifiers are “mass-affluent” households — generally the most profitable segment for banks. Diversifiers have the highest average product ownership rate at 6.3, of which nearly half (an average of 3.6 products) are owned with their primary bank.</li> <li>✓ Attitude toward banks: Favorable perceptions of primary bank next only to consolidators</li> <li>✓ Channel preferences: Highest users of bank branches and digital channels</li> </ul>

Low/ less than three products	<p><b>BASIC USERS</b></p> <p>Segment size (% of all) – 42%, the largest segment in the sample  Average products holding with primary bank – 1.0  Average products holding with other financial institution – 0.9</p> <p><b>Segment profile</b></p> <ul style="list-style-type: none"> <li>✓ Demographics: Young and middle-aged respondents with lower earnings and basic financial needs: <ol style="list-style-type: none"> <li>1. Young basic users whose product needs may advance as they grow older,</li> <li>2. Middle-aged and older customers whose needs and usage behaviors are unlikely to change much.</li> </ol> </li> <li>✓ Bank behavior: They have limited means, less access to credit, and, as a result - the lowest average product ownership rate (1.7)</li> <li>✓ Attitude toward banks: Least satisfied with primary bank; and have less favorable perception</li> <li>✓ Channel preferences: Lowest users of all channels compared to other segments; young users, however, use more digital channels</li> </ul>	<p><b>CONSOLIDATORS</b></p> <p>Segment size (% of all) – 9%  Average products holding with primary bank – 3.6  Average products holding with other financial institution – 1.2</p> <p><b>Segment profile</b></p> <ul style="list-style-type: none"> <li>✓ Demographics: Most loyal segment comprising low-to-moderate income respondents nearing or in retirement</li> <li>✓ Bank behavior: The most loyal consumers - they have strong relationships with their primary banks. Consolidators hold on average 4.1 products, 3.6 of which are at their primary bank, the highest proportion of all four segments.</li> <li>✓ Attitude toward banks: Most positive perceptions of primary bank; also most satisfied. 55% of consolidators perceived their primary bank to be more fair than other banks with regard to fees, and 78 percent believed their primary bank had serviced their needs effectively during the last year — the highest among all segments.</li> <li>✓ Channel preferences: Most active users of ATM withdrawals</li> </ul>
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**Figure 2: Bank customers segmentation: product ownership patterns**

*Source: Deloitte Center for Financial Services, 2013*

Banks need to align their marketing goals and marketing initiatives to effectively support the cross-selling referred to the four segments above:

### **Basic users**

As it has already been pointed out this segment could be divided into two subsegments: (1) young basic users (Y-generation) that are not attractive target at present, but with a great long-term potential if banks could create and develop a strong relationship with them, and (2) middle-aged and older customers for which banks have to lower the cost of service and to offer simple and low-cost products.

The main ways to increase the cross-sells in this segment are the following:

- Providing omnichannel access to bank products and services (young basic users are the most active users of digital channels and of mobile banking).

- Incorporating the financial education in the processes of young clients servicing: providing digital advises and information; using social media as a channel of communication with young users; developing applications and on-line games to increase the financial literacy and so on.
- Influencing the young users perceptions positively which is a main driver of their loyalty.
- Consistently tracking life events to predict the financial needs at every life stage and to customize product offerings according to life events; helping the customers to reveal their financial needs.
- Providing value-added services to keep customers engaged.
- Applying mixed product bundling strategies that give customers a flexibility to purchase all products in the bundle or to buy some of them.
- Keeping the cost-serve at a low level and developing low-cost products that could discourage switching to other financial services provider.

### **Value shoppers**

Value shoppers are those who rely less on primary banks for their financial needs. We have to take into account that the multibanking is increasing in recent years: the share of clients which are using only one bank is decreasing from 41% in 2011 to 31% in 2012. At the same time the share of clients which are using three and more banks is increasing- from 21% in 2011 to 32% in 2012 [13]. The reasons for such behavior may be different: lack of trust, negative perception about their primary banks due to fees and service quality; lack of specialization, lack of appropriate financial advises or product breadth. Tendencies to diversify the financial risk among multiple institutions have to be taken into account as well. Despite of all a special focus is needed to value shoppers because they obtain all attractive characteristics which banks are looking for: financial strength; broad financial needs; omnichannel behavior.

The main ways to increase the cross-sells in this segment are the following:

- Changing the negative perceptions and attitudes toward the primary bank institution: make the pricing and the products more transparent; demonstrate value and transparency through clear and consistent communication, create brand image and reputation.
- Providing superior experience and overall satisfaction.
- Incentivizing account consolidation at the primary bank (offering packages which give customers an opportunity to save money in form of bonuses, discounts and other incentives for example).
- Incentivizing loyalty.

### **Diversifiers**

Although banks have a decent share of wallet among the clients in the segment they need to look for more opportunities to develop successful relationships with diversifiers.

The main ways to increase the cross-sells in this segment are the following:

- Targeting specific products that fully match diversifiers' mature needs.
- Providing personalized products and service models.
- Gradually shifting focus from pricing to value-added benefits and consistently improving the product quality and serving.
- Enhancing customer experience through balanced omnichannel distribution that stimulate cross-channel switching and access.
- Targeting and positioning at the mass affluent.

## Consolidators

This segment is very important in the case of cross-selling in retail banking. Consolidators have strong relationship with their main bank and they are the most loyal bank clients. Banks should retain them and make the interrelations with them stronger. They should take benefits of this group of clients trying to convert them to advocates.

The main ways to increase the cross-sells in this segment are the following:

- Enhancing the positive perceptions about their primary bank.
- Retaining the consolidators and leveraging their loyalty by converting them to advocates.
- Identifying the critical touch points and influential factors and providing superior experience for each of them.
- Incentivizing more active clients' participation in the process of product development and usage and in the marketing activities as well (co-creation).
- Creating virtual space (on websites, blogs, social media) for consolidators to share their positive experience and to influence the perceptions and purchase intentions of other segments.

Successful cross-selling definitely requires that banks understand what their customers need and that the bank keep track of their interactions. Analyzing the customer database and then putting the right customer relationship management strategies in place is essential to ensure that the cross-selling effort does not backfire.

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