

Methods of effective customer segmentation in the banking system

Harutyunyan Gor S.

ASUE, Chair of Management, PhD student (Yerevan, RA)

 <https://orcid.org/0000-0001-6415-6010>

gorharutyunyan01999@gmail.com

UDC: 339.1; EDN: YFXTKR; JEL: M3

DOI: 10.58587/18292437-2024.5-174

Keywords & phrases: Customer relationship management (CRM), customer segmentation, customer reactivation, customer retention

Հաճախորդների արդյունավետ սեգմենտավորման եղանակները բանկային համակարգում

Հարությունյան Գոր Ս.

ՀՊՏՀ, Կառավարման ամբիոնի ասպիրանտ (Երևան, ՀՀ)

Ամփոփագիր. Գինամիկ փոփոխվող և մրցունակ բանկային համակարգում հաճախորդների արդյունավետ սեգմենտավորումը էական նշանակություն ունի ծառայությունների և հաճախորդների հետ հարաբերությունների կառավարման (CRM) բարելավման համար: Այս հոդվածը ներկայացնում է բանկային ոլորտում հաճախորդների սեգմենտավորման առկա մեթոդների համապարփակ ուսումնասիրությունը՝ բացահայտելով գրականության մեջ հաճախ քննարկվող հիմնական սեգմենտավորման եղանակները, ինչպիսիք են՝ ժողովրդագրական, վարքագծային և այլն: Հիմնելով վերջինիս վրա՝ առաջարկվում է սեգմենտավորման նոր մոտեցում, որն ուղղված է բանկային ոլորտում առկա ժամանակակից մարտահրավերներին դիմակայելուն և հնարավորություններին: Միավորելով տեսական պատկերացումները շուկայում կիրառվող հավելվածների հետ՝ այս հոդվածը առաջարկում է արժեքավոր ուղեցույց բանկային մասնագետների համար, ովքեր ձգտում են օպտիմալացնել իրենց հաճախորդների սեգմենտները և CRM ռազմավարությունը: Առաջարկվող սեգմենտավորման եղանակը ոչ միայն բարելավում է հաճախորդների կարիքները բացահայտումը, այլ նաև օժանդակում է արդյունավետ ռազմավարական որոշումների կայացումը՝ ի վերջո նպաստելով բանկի մրցակցային առավելությունների բացահայտմանը և երկարաժամկետում հաջողությանը:

Հանգուցաբառեր և բառակապակցություններ՝ հաճախորդների հետ հարաբերությունների կառավարում, սեգմենտավորում, հաճախորդների վերակախվացում, հաճախորդների պահպանում

Методы эффективной сегментации клиентов в банковской системе

Арутюнян Гор С.

аспирант кафедры управления,

Армянский государственный экономический университет (Ереван, РА)

Аннотация: В динамичном и конкурентном банковском секторе эффективная сегментация клиентов является важным элементом для индивидуализации услуг и улучшения управления взаимоотношениями с клиентами (CRM). В данной статье представлен всесторонний обзор существующих методик сегментации клиентов в банковской индустрии, выделяя ключевые сегменты, часто обсуждаемые в литературе, такие как демографические, поведенческие и другие типы сегментов. На основе этих основных положений предлагается новый подход к сегментации, который адресует современные вызовы и возможности в банковской сфере. Синтезируя теоретические идеи с практическими применениями, данное исследование предлагает ценное руководство для банковских специалистов, стремящихся оптимизировать сегментацию клиентов и управление CRM. Предложенная модель сегментации не только углубляет понимание клиентов, но и способствует стратегическому принятию решений, что в конечном итоге способствует конкурентному преимуществу и долгосрочному успеху банка.

Ключевые слова и словосочетания: Управление взаимоотношениями с клиентами, сегментация, реактивация клиентов, удержание клиентов

A huge part of the attention of the global banking industry has been directed towards digitization and the integration of technologies in recent decades. Customer relationship management (CRM) and the use of CRM software are also part of this. In the banking sector, CRM can be used in different ways and purposes [1]:

- personalized approach to customers,
- marketing automation,
- collection of aggregated information about customers,
- customer financial and personal data reporting,

- automation of contact center work, etc.

To achieve the goals listed above, companies integrate (Salesforce, Inc. Microsoft, Hubspot, Zoho, SugarCRM Inc.) or create their own CRM tools. The global banking CRM software market was valued USD 9.5 billion in 2021 and is projected to reach 39.2 billion by 2031 [2].

The concept of customer relationship management in banking and almost all applicable industries is about creating and maintaining long-term relationships with the customer that are profitable and beneficial to both the customer and the business. In the context of this idea, banks can create relationships with each customer or groups of customers that should be formed taking into account certain circumstances.

In order to develop and implement an effective CRM strategy, banks should segment their customers according to age, place of residence, profitability, behavior, preferences, etc. Correct customer segmentation helps banks develop and implement a more personalized strategy, ensuring higher rates of customer loyalty.

Banks adopt aggressive behavior towards the most profitable and valuable customers very often, which is acceptable. Many service organizations use the 80/20 rule as a basis, according to which 80% of the company's profits come from only 20% of the customers, which in itself is not a bad indicator, especially since some studies have shown that in the case of banks the 150/20 rule may also apply [3].

The effectiveness of the CRM strategy in any company, including banks, is largely determined by the customer segmentation ways. What is the basis of the latter, are the customers included in each group similar to each other enough, and do the campaigns carried out for them give the maximum results? In itself, customer segmentation is the division of the entire customer base into separate groups that have similar characteristics, needs, behaviors and may require special treatment.

Customer segmentation based on their preferences, needs, wants was almost non-existent at one time, as many companies adopted the option of mass targeting due to a very narrow range of products presented to the customer. A perfect example is the idea of Henry Ford, CEO of Ford Motor Company in the 1900s, that his customers could choose any color car, as long as it was black [4]. However, over time, the wide range of products and services has led to a discernment of needs and wants, which has led to changes in mass targeting strategies. Companies began to understand that customers differ in needs, shopping behavior, tastes, which became the basis for the formation of different target groups. As a result, companies

started to separate segments from the whole to meet one or more needs.

As a result of all this, 2 directions began to be used in practice for more effective implementation of marketing campaigns: niche marketing and micromarketing. In the case of the first version, we are dealing with larger segments that have similarities and there is generally no competition in the group, and the second is part of the previous one, but the target groups are narrower and are therefore local and individual [4].

In practice, the vast majority of companies base segmentation on such features (especially in case of local marketing) as [4]:

- geographical – this groups customers by region, city, village, community, etc. In this case, the bank has a large group of customers who live in Yerevan and are more interested in mortgage loans, and another group whose customers live in Ararat province and prefer agricultural loans, and so on. As a result of this, banks can even group their services by region and offer them only to residents of certain parts of the Republic of Armenia (for example, border residents).

- Demographics – this takes into account customers' age, employment, gender, education, income, marital status, etc. Banks can have a customer group that consists of unemployed students and offer special tuition loans and student cards to them, or a segment that includes young professionals and offer them travel cards. Among the components of the demographic characteristic, the incomes of customers are of great importance for banks, because the profit obtained by the bank directly depends on it.

- Psychological – here customers are grouped into segments formed based on lifestyle or personality characteristics. Banks will form groups of customers by for example finding out their preferences and understanding what kind of service users they are, whether they are more savers, spenders or price sensitive.

- Behavioral – segments are formed based on their attitudes, knowledge, personality, service usage patterns or responses. In the banking world, we will have segments where there will be customers who are always waiting for technology updates, rate reductions, quality enhancements, personalized offers, etc.

These are the most common segmentation bases used in practice, but most companies do not stick to any of them because these are the top tiers of segments, below which sub-segments are already applied, which are often groupings of these characteristics. It can be very easy for companies to group customers by age or gender, but conducting activities with such segments can have very low

efficiency: this is where it is important to pay close attention to customer behavior and taste. Of course, there are directions where the segmentation with such characteristics has its great effectiveness, but this is rare. For banks to work with pension cardholders, it is clear that those aged 63 and over will be targeted. In practice, apart from the four main characteristics of segmentation mentioned above, a number of other groups can be found such as [5]:

- technological – do customers use the products via mobile apps, mobile browsers, desktop or other options? In the banking industry, this is useful, for example, to cross-sell applications after

they are released, encouraging customers to adopt them.

- Based on needs – here customers are grouped mostly by the needs and requirements they have for the product or service. It is ineffective to offer loans of the same type, interest rate and limits to customers with different living standards.

- Based on values – the basis of grouping here is actually the economic status of the customers and based on this, high, medium, low price products and services are offered.

All the segmentation types mentioned above and the groups of main features in them can be seen in table 1.

Segmentation type	Main features
<i>Geographical</i>	Location, preferred language, workplace, etc.
<i>Demographic</i>	Gender, age, employment, family income, marital status, etc.
<i>Psychological</i>	Values, interests, personality, etc.
<i>Behavioral</i>	Customer lifecycle stage, site activity, last contact with customer, knowledge, etc.
<i>Technological</i>	Device type, operating system type, browser type, etc.
<i>Based on needs</i>	Product specifications, service needs, delivery method, etc.
<i>Based on values</i>	Customer satisfaction level, number of purchases, average buying price, etc.

Table 1: Key factors of customer segmentation

In banking and in almost any business, it is critical to consider the value you receive and expect from the customer. When developing a CRM strategy and segmenting customers, it is also a cornerstone to calculate the customer lifetime value (CLV) KPI. CLV is generally the present value of all future profits expected from the customer over the lifetime of the relationship with the company [6]. The indicator has 2 important features. The calculation can be performed for each customer or any segment of customers, which makes it possible to find real profitable customers and it includes the probability of customers preferring the competitors. The basic formula for CLV calculation [6] is:

$$CLV = \sum_{t=0}^T \frac{(p_t - c_t)r_t}{(1 + d)^t} - AC$$

where,

p_t - the customer's payments sum amount at time t ,

c_t - the cost of services provided to the customer at time t ,

d – discount rate,

r_t - the customer's probability of repurchasing at time t ,

AC – acquisition cost,

T - the future time period in which the CLV is calculated.

As a result, it is possible to have the CLV of each customer, which can be used as a new basis for customer segmentation. The breakaway groups will differ in their profitability for the bank, and it is not surprising that the bank will focus heavily on retaining and not losing customers with high CLV while trying to bring those with low CLV to the level of predecessors.

When it comes to customer lifetime value (CLV), F. Battle and S. Maclan in their work "Customer Relationship Management, Concept and Technology" point out that in one out of every five banks, the CLV ratio is not calculated, which, combined with the incomplete study of other financial indicators, is the basis for the lack or ineffectiveness of cross-selling [7].

In practice, one of the most important stages in the process of customer segmentation is the choosing of the criteria that distinguish these groups. Above we have already discussed the main metrics that are the basis of the formation of these

groups. But apart from that, companies should define 2 criteria for evaluating segments. One of them is called knockout criteria, which is the basic and non-negotiable criteria of the segment that the company will use when targeting. The second group is called attractiveness criteria, which is used to evaluate the relative attractiveness of the remaining parts of the segment that meet the previous criteria [8].

Several important conditions should be taken into account when creating segments with the knock-out factor:

- segments must be homogeneous - customers who are part of the segment must be similar to each other,
- segments must be distinct – the customers who are part of the segment must be distinctly different from the members of other segments,
- segments must be large enough – the number of people who are part of the segment must be enough to make it worth spending additional resources to perform certain actions,
- segments must correspond to the company's capabilities - the company must have adequate capabilities to meet the needs of the given segment,
- the customers who are part of the segments must be recognizable - the latter must be noticeable in the market,
- the segment must be reachable – there must be ways to reach out to customers.

And the criteria of attractiveness is already manifested narrower, in a unique way, characteristic for the given segment. In this case, the segments do not correspond to the given standard, but they somewhat characterize the latter.

All this can be done in any company, including the banking sector, by the CRM team, but it is very important to involve top management in the process as well. Naturally, the latter will not be involved in the day-to-day work with these segments, but they should have a general understanding of what kind of customers exist and what transitions exist between these segments at different periods of time in order to make clear decisions in the overall strategy. Based on this, we offer another option of segmentation, which should already be visible to the management, consisting of the following groups:

- new customers – depending on the company's performance and in this case the

type of banking product, the standards imposed on this group may be very different. These are the customers who become a bank customer for the first time - first bank card, deposit, loan, etc. If we are talking about, let's say, a bank card, and after acquiring it, the customer continues to actively perform operations during the following 7-30 days (the number of days can vary strongly depending on the organization and historical data), the latter can move to the next segment.

- Active - those customers who, having passed from the previous group to this group, continue to actively perform various operations. If their activity decreases or is interrupted, say in 30 or more days, they can move to the next group.
- Churn - this is where customers mostly stop using the company's services, and a CRM strategy is of great importance to bring these customers back to their previous status. A customer can stay here for up to 6 months (again, the terms can vary greatly depending on the business and type of banking/service), after which we have 2 options.
- Reactivated – this is the group of churn customers who are able to be reactivated and they start to act like 2nd segment. Here, it is also very important to implement such a strategy that it is possible to keep the customer as long as possible to avoid churning again.
- Dormant – this is the extreme version of the churn customers, when it is much more difficult to reactivate the customer, but not impossible. Here the client can stay until a new action is taken by the latter.

In Figure 1, we can see the overall cycle of the segments listed above, and this is, of course, similar to the entire customer life cycle. There are various tools where, by entering the relevant data and the parameters of the segments mentioned above, it is possible to see the segments and the movement of included customers at any moment of time. In other words, the company's top management should have the opportunity to see, for example, which part of new customers becomes active within a predetermined period, which part goes from active to churn, and so on.

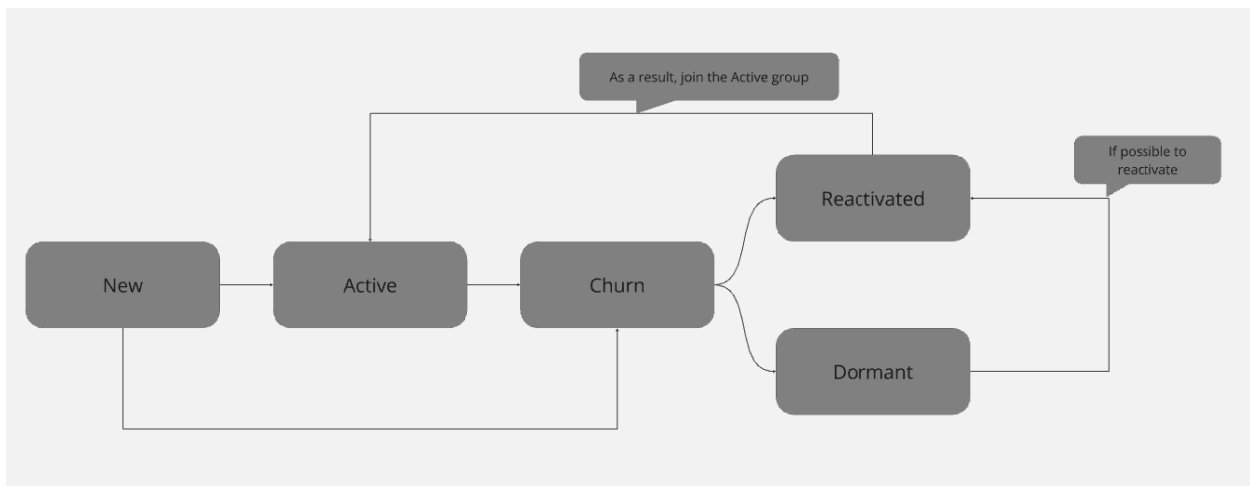


Figure 1: *The movement of customer segments.*

References

1. Official website of Leadsquared - <https://u.to/TyvKIA>
2. Official website of Allied Market Research – <https://u.to/OyvKIA>
3. **Vadlamani Ravi** Advances in banking technology and management: impacts of ICT and CRM. New York, 2007
4. **Kotler P., Armstrong G.** Principles of Marketing: 11th Edition, Prentice-Hall, Upper Saddle River, 2005
5. Official website of Hubspot – <https://u.to/NivKIA>
6. **Gupta S., Hanssens D., Hardie B., Kahn W., Kumar V., Lin N., Siriam S.** Modeling customer lifetime value. Journal of service research 9(2), 2006
7. **Buttle F., Maklan S.** Customer relationship management: Concept and technologies: 4th edition. New York, 2019
8. **Dolnicar S., Grun B., Leisch F.** Market segmentation analysis: understanding it, doing it, and making it useful, 2018

Сдана/Հանձնվել է՝ 18.07.2024
 Рецензирована/Գրախոսվել է՝ 31.07.2024
 Принята/Ընդունվել է՝ 07.08.2024