

# **UNEQUAL TREATMENT**

## **Alienating Customers Isn't Always a Bad Idea, Many Firms Discover Banks, Others Base Service Whether an Account Is Profitable or a Drain 'Redlining in the Worst Form'**

### **WALL STREET JOURNAL**

By Rick Brooks

Charlotte, NC- Fielding phone calls at First Union Corp.'s huge customer service center here, Amy Hathcock is surrounded by reminders to deliver the personal touch. Televisions hang from the ceiling so she can glance at the Weather Channel to see if her latest caller just came in from the rain; a bumper sticker in her cubicle encourages, "Practice random kindness & senseless acts of beauty".

But when it comes to answering yes or no to a customer who wants a lower credit card interest rate or to escape the bank's \$28 bounced-check fee, there is nothing random about it. The service all depends on the color of a tiny square- green, yellow, or red- that pops up in Ms. Hathcock's computer screen next to the customer's name.

For customer's who get a red pop-up, Ms. Hathcock barely budges; these are the ones whose accounts lose money for the bank. Green means the customers generate hefty profits for First Union and should be granted waivers. Yellow is for in-between customers: There's a chance to negotiate. The bank's computer system, called "Einstein," takes just 15 seconds to pull up the ranking on a customer, using a formula that First Union declines to detail of minimum balances, account activity, branch visits, and other variables.

#### **The Non-Egalitarian Approach**

"Everyone isn't all the same anymore," says Steven G. Boehm, general manager of First union's customer-information center, where agents will handle about 45 million customer calls this year. After years of casting a wide net lure as many consumers as possible, banks and many other industries are becoming increasingly selective, limiting their hunt to "profitable" customers and doing away with loss-leaders.

Wielding ever-more-powerful computer systems, they are aggressively mining their vast databases to weed out losers, or at least charge them more, and to target the best customers for pampering. Paging Network Inc., a paging services provider that for

several years essentially gave away its pagers in a race to build market share, now is trying to chase away heavy users who receive a flurry of messages but often pay only a rock-bottom monthly fee.

"The power users are the ones you need to get away from," a PageNet spokesman says.

### **Sending Bad News**

After bringing in consultants to sift through data on individual customers, PageNet sent letters to marginal subscribers, telling them their rates were being increased. The company, under new management and in the process of restructuring most of its operation, also got tougher on companies that resell its pagers.

The results so far are significant: PageNet's domestic subscriber base shrank by almost 138,000 in the third quarter of 1998 to about 10.2 million. Last month, the Dallas company said it expected to lose as many as 325,000 additional customers in the fourth quarter. "There's just no free lunches anymore," the PageNet spokesman says. "We've done the research now to feel comfortable walking away with no regrets."

The story is similar to FedEx. Two years ago, the shipping giant began analyzing the returns on its business for about 30 large customers that generate about 10% of its total volume. It found that certain customers, including some requiring lots of residential deliveries, weren't bringing in as much revenues they had promised when they first negotiated discounted rates with FedEx.

So FedEx went on the offensive, demanding that some customers pay higher rates and imposing double-digit increases in a handful of instances. A couple of big customers who refused to budge were told they could take their shipping business elsewhere.

### **'Suck It Up'**

"We were willing to risk a point or two of market share to correct the problem," says a spokesman for FedEx, a unit of FDX Corp. "You have to be willing to suck it up and walk away."

Of course, some industries have along tradition of favoring "good" customers over less profitable ones. Airlines, credit-card issuers and mail-order companies have thrown loads of tailored services to so-called platinum and premier customers. And banks several ears ago started charging fees for services they wanted to discourage, like visits to the teller.

But only recently has technology developed to the point where companies can compare profit-and-loss statements on every customer and weed out the money-losers. Banks are by far the biggest industry yet to marshal this data-crunching ability. Already, about half of big banks with more than \$1 billion in deposits use profit data to make customer decisions, more than double the percentage just a year ago, estimates GartnerGroup Mentis Financial Services, a banking research firm in Durham, NC

For banks a typical "bad" customer makes frequent branch visits, keeps less than \$1,000 in the bank and calls often to check on account balances. The most profitable customers, who keep several thousand dollars in their accounts, use a teller less than once a month and hardly ever use the call center. And while favored customers generate more than \$1,000 in profits a piece each year, the worst customers often cost the bank money- a minimum of \$500 a year.

**What's more, the top 20% of typical bank customers produce as much as 150% of overall profit, while the bottom 20% of customers drain about 50% from the bank's bottom line, according to Market Line Associates, an Atlanta bank-consulting firm.**

To help separate the wheat from the chaff, banks have spent about \$500 million in the past few years on software and consultants, according to First Manhattan Consulting Group in New York. That number is expected to grow to at least \$500 million per year in the near future, as many more of the nations 9,000 or so banks take up the call.

First Union estimates its Einstein system will add at least \$100 million in annual revenue, or less than 1% of its 1997 total revenue of about \$12 billion. About half of that increase is expected to come from extra fees and other revenue from unprofitable customers, and from holding on to preferred customers who might otherwise leave the bank if not for the extra pampering.

### **Calculating Profits**

First Union, the sixth-largest bank in the U.S., acknowledges that it is still figuring out how to track profits generated by its new strategy. "It's not so much that it can't be done, but we need to refine the mechanism," says Sandy Deem, a First union spokeswoman. Part of the problem is that most banks haven't married their disparate computer systems.

While one database may track how many times a customer visits ATMs, how much the bank spends on marketing to get that person there might be in another system, with a third system estimating how much interest income an account generates. The profit obsession, of course, has many risks. For one, future profits are hard to predict. A high-school student on his way to a Harvard M.B.A. and a plum job on Wall Street might be worth courting.

So might an unprofitable customer who suddenly inherits a lot of money and wants to plunk it in CDs or other products. "That shabby-looking guy might actually be or become an eccentric billionaire. But as a result of using this technology, do you give him the bum's rush?" asks Srikumar S. Roa, chairman of the marketing department at Long Island University's C.W. Post campus in Brookville, N.Y.

### **Bristling Over Bank Policy**

Even some customers who fit the favored-customer profile bristle at the notion that bankers are bending over backward only for their most profitable clients "I understand that everybody needs to make a profit, and I can't begrudge them for that," says John B.

Warnken, a 47-year-old insurance consultant in Tampa, Fla., who banks with Huntington Bancshares Inc.

"To me, this is redlining in the worst form and fashion." Nancy Moran, a prison consultant in Baltimore, keeps about \$500 in her account at NationsBank, just enough to avoid paying a monthly fee. She is irritated that her monthly account statement includes a list of each service she uses, and she fears that the bank, now part of BankAmerica Corp., can track her moves and profitability so closely that soon "every little interaction between me and the bank will be assessed a fee."

It doesn't help matters that the relationship between many banks and their customers is already strained. The biggest merger boom in the industry's history has left countless customers to endure longer lines and more bureaucratic snafus. And there is some customer resistance to the industry's push toward conducting as many transactions as possible via ATM or on-line; banking is still a business that operates largely on trust, and many customers want to speak to a human being when doing important transactions such as depositing large checks or taking out a car loan or mortgage.

### **Competing for Customers**

At the same time, banks, like other businesses, are under attack from all sides. Brokerage firms and mutual-fund empires in particular are trying to grab traditional bank customers, and highly profitable ones are the most attractive. To fend off the assault, banks say they need to identify the customers they should fight hardest to keep. In many places, the line in the sand between preferred and non-preferred customers has become strikingly obvious.

Bank One Corp., Chicago, the nation's fifth largest bank, is redesigning its 218 branches in Louisiana so "Premier One" customers, after presenting a special gold card to the "concierge" near the front door, can be whisked away to a special teller window with no line or to the desk of a specially trained bank officer.

"And if that person has a problem or complaint, we are empowering our people to provide no-question-asked refunds" on fees customers think they shouldn't have to pay, says Ronald Baldwin, Bank One's president of retail delivery. customers qualify by keeping at least \$2,500 in a checking account or a total of \$25,000 in a combination of certain bank accounts, loans and investments, or by paying a \$17 monthly fee. Bank One estimates the extra attention will go only to the top 20% of its customers.

Need to dial into your bank's customer-service center? At Westamerica Bancorp. in San Rafael, Calif., about 5,000 "VIP" customers get a secret toll-free number allowing them to jump ahead of unprofitable callers. BankAmerica, the second-largest U.S. bank, routes calls from preferred and unprofitable customers to different operators; a personal-identification number entered by each caller allows the bank to determine, among other things, the customer's profitability ranking.

## **"We Don't Do That Anymore"**

Now, talking to a branch manager can also depend on whether a customer is profitable. Gone are the days at Centura Banks Inc., Rocky Mount, N.C. where the manager returned phone messages in the order they were received. "We don't do that anymore," says Bob James, group executive for market planning and customer development. He notes that the bank now rates its 550,000 customers on a scale of one to five, with one being the most lucrative.

"I would hope that all of our branch managers, if they recognized a 'one' in there, would call that person first." Most banks deny they are trying to get customers to leave. "It's not that you don't want to get people as your customers," says Jack M. Antonini, a former credit-card executive brought to First Union to ramp up its information-crunching efforts.

"This is just a more efficient model for putting the just a more efficient model for putting the right product in the hands of the right customer." But after First Chicago Corp., now part of Bank One, imposed a \$3 teller fee in 1995 on some of its money-losing customers, 30,000 of them-or close to 3% of the bank's total customers-closed their accounts.

Some customers became profitable by boosting their account balances high enough to avoid the fee or by visiting ATMs instead of tellers, the bank says. Meanwhile, some competitors are making a nice living on the throwaways. David Ness president of Raymond James Trust Co. and Sound Trust Co., both units of Raymond James Financial Inc., St. Petersburg, Fla., says "dozens" of his firm's 1,177 trust accounts came from traditional banks that told their clients they were too small to merit further personal attention. Says Mr. Ness, "Nobody seems to care anymore, and that is a big part of our marketing effort.

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