THE CONSULTING PARTNERSHIP

No. 11, April 15, 2022 (revised from first publication in 7/2014) VIEWPOINT

Client Segmentation – from Efficiency to Effectiveness

In the traditional Private Banking, client segmentation is currently mostly done according to the outdated criterion "Domicile" and "Asset Volume", in some instances according to risk profile (e.g., Active Advisory clients). The primary purposes of this clustering are the better supervision of cross-border policies as well as the alignment of both organizational structure and sales process. Due to this rudimentary segmentation, optimization of client servicing as well as value creation in the offering is usually not in the focus of these measures.

Some well-known management consulting firms (PwC, McKinsey, Boston Consulting Group, etc.) have dealt intensively with the segmentation issue over the last decade and developed interesting concepts with the objective to define services-oriented criterion towards the creation of client clusters, to provide value creation as well as improve client loyalty.

„ Opportunistic Client Management is tactical, not strategic "

Despite of these initiatives, little has changed over the past years in the mainly opportunistic driven relationship management between bank and client. The ability to offer a comprehensive range of services on a strong platform does not necessarily lead to the delivery of the full-service value to the client.

Often, the assessment of client's requirements is based on the knowledge and experience of the client advisor, who manages a heterogeneous group of clients on an exclusive basis and who aligns the offering to requirements of the client (tailor-made). As a consequence, client management and –servicing are not segregated (one-to-one marketing) and the client often lacks transparency whether he got the best possible offering. Alternative client management models (including web-based technologies) have not broadly established themselves, despite of the strong interest of the younger clientele. An additional, unresolved issue is the large proportion of passive, unprofitable client relationships (e.g. self-directed clients).

There are several strong arguments that would support the creation of client segments along similar service requirements: since the abolition of the banking secrecy, the client has become more receptive to an active, performance-oriented relationship. Accordingly, the main consideration for an innovative segmentation concept is the orientation around services (creating client groups with similar requirements), which gains importance compared to the current orientation around the distribution process (sales optimization).

The service-oriented client clusters could be segregated into the three following dimensions:

- **Offering Orientation** (Clustering of clients with similar, anticipated requirements)
- **Client Type Orientation** (allocation to distribution channels)
- **Value Orientation** (Allocation of resources to the relationships with the highest value creation)

A client relationship between bank and client may well extend over several decades, whereby the client's service requirements are subject to substantial change. This transition process leads to an ongoing requirement to monitor and possibly reallocate the client to the most suitable cluster, which might lead to a new client servicing partner. By implementing the life cycle orientation, client requirements may be better anticipated and proactively serviced by the Bank.

Alternative: Segmentation along client requirements

Today, and even less so in the future, it is no longer adequate to allocate clients according to their portfolio size and domicile. We are convinced that a customer-oriented segmentation provides an excellent basis for a sustainable and strategic value chain between Bank and client. The client will appreciate targeted and proactive services by a closer, more active relationship and loyalty, the Bank will benefit through an optimized offering and improved profitability. Moreover, the transition from traditional, distribution-oriented segmentation criterion to service- and life-cycle oriented client clusters also offers a chance to harmonize the provision of similar client requirements and to position the bank with an innovative image. Finally, the Bank will be able to focus on profitable niches as well as those client segments with the highest value- and growth potential, but also reach out to clients that have been passive in the past.

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