

# Bankinter internet customer acquisition strategy

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Bankinter, a relatively small independent national bank, has a large presence on the Spanish market as an Internet financial services provider. It was the first bank in Spain to offer telephone, electronic and virtual banking. In 2001 the Internet marketing campaigns were very successful, the Internet branch (Branch 8700) experienced rapid growth, mainly due to the e-collaborators program, that played Bankinter banners at high traffic Internet sites.

Bankinter's positioning as a multichannel, online banking gave Bankinter a major competitive advantage over larger and more established Spanish banks. Ann Peralta, the director of Internet network at Bankinter, needs to evaluate which customer segments are most profitable for the bank and develop a plan for new customer acquisition while balancing costs with rate of growth and profitability.

One of the biggest challenges for banks (including Bankinter) is customer acquisition and by implication customer retention. The fact that it is relatively easy to switch accounts from one bank to another has meant that while IT can assist in customer lock-in, it can also encourage disloyalty among customers. Therefore, banks have turned to a new type of application called customer relationship management to learn more about their existing customer base and to identify who, among non-customers, might be worth targeting.

Peralta uses tools such as CRM, activity-based costing, customer profitability, and lifetime value computations to determine the value of this cohort of new customers for the bank and in doing so, can decide on future customer acquisition strategies.

## **2. Acquisition strategy of Bankinter**

Bankinter's acquisition strategy consists of developing alliances with highly trafficked, dominate online portals, partnering with e-collaborators, and maintaining brick and mortar branches. I analysed the strengths and weaknesses of these strategies below.

### **Alliances**

### **E-collaborators**

### **Brick and mortar**

Highly trafficked, dominate portals

Any high-traffic sites (content does not matter) that accepts Bankinter banner - lack of targeting

Radio, television and print advertisements

Customers acquired are loyal

Customers acquired are not very loyal

Customers acquired are loyal

Co-branding

New customers (about 5, 000 or more in the year 2000)

New customers (about 44, 000 in 2001)

No dramatic results in customer acquisition

Need to adapt to alliances

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No adaptation

No adaptation

Cost of replicating online system in each portals' sites

No programming of duplicate web pages

Space on server for duplicate systems, maintain them separately

No maintenance of replicated websites

Cost of staff to maintain pages

Less employees required to manage

Less employees required to manage

Service provided for customers is not the best due to shortages in staff number

No problems with service quality

No problems with service quality

High up-front annual fee for co-branding

No up-front fee paid for portals

High fees paid for advertisements and promotions

Fee for alliance partner for each customer acquired via the portal

Fee for collaborators for each acquired customer

No fee paid per acquired customer

Brand is hidden

Bankinter banner

Brand is visible

Competitors can easily copy the program

Harder for competitors to copy without Bankinter's expertise

Competitors can copy the strategy

Big Spanish competitor banks infiltrate the sites

Competitors cannot intervene in Bankinter's e-collaborator business

High customer acquisition costs (could not be justified)

Low customer acquisition costs (60EUR commission split between portal and customer - if portal did not bring new customer, Bankinter pays nothing)

High customer acquisition costs

Low number of non-formalised customers

High number of non-formalised customers

Low number of non-formalised customers

Ignore existing customers - emphasis only on acquiring customers not retention

Ignore existing customers - emphasis only on acquiring customers not retention

Incentives not just for new customers, but existing ones

No CRM

Making use of CRM tools - more customer focus

No CRM

More difficult to cross-sell products to

More difficult to cross-sell products to

Easier to cross-sell products to

More price oriented

More price oriented

Less price oriented

Based on this analysis I would recommend not using the alliances strategy because it is way too costly to acquire customers and also the brand is hidden. It also requires a very complex system which results in worse service quality. We should also see that this strategy does not make use of the CRM skills of Bankinter thus can be easily copied by competitors. I would recommend using e-collaborators and brick and mortar strategies in the coming periods. E-collaborators is a less costly way to acquire customers, the brand is not hidden and it is way less complex. It also makes use of CRM

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tools, thus Bankinter can gain valuable insights of its customers. On the other hand, this strategy has its drawbacks, like the lack of targeting, which should be ameliorated (see more recommendations later in section 5). I also think the bank should keep brick and mortar strategy because it targets another segment which is also very valuable segment (less price sensitive) and is less open for technology (less open for Internet) but is an important segment.

### **3. Channel performance analysis**

I carried out a channel performance analysis regarding 8700, the E-collaborators and the Alliances. This analysis consists of the calculation of customer life time value of the specific channels. In case of all three channels profitable and non-profitable clients were analysed separately.

As discount rate was not given in the case study I used an assumption for the calculations. I assumed that the discount rate is 10% in all the cases.

Lifetime duration is the number of years that a customer spends with the bank in average. From the text we could get this information based on which we could calculate the retention rates for year 1, and then for the other periods as well ( $RR = 1 - 1/\text{lifetime duration}$ ).

We can of course see that the lifetime duration and thus the retention rate is higher for profitable customers than for nonprofitables, and these are highest in case of 8700 and lowest for E-collaborators.

Below can be seen the results of the customer lifetime value calculations for 5 and 10 years. It was estimated for these time periods because the average

of all the lifetime durations is more than 4 years, but there are two lifetime durations that exceed 5 years, so it is better to calculate for both periods.

We can see that both in 5 years time and in 10 years time Branch 8700 has still the highest CLTV, with Alliances being the second, just as in the case of lifetime duration and retention rate.

For the complete CLTV calculations see Attachment (5. 1, 5. 2).

#### **4. Future Strategy & Recommendation**

Bankinter should place its primary focus on their profitable segments and Branch 8700 products (based on formalised vs non-formalised ratio and CLTV). Furthermore, they should emphasize on cross-selling products to e-Mortgage and e-Broker customers since they are active as well as significantly profitable in comparison to other 8700 customers. With respect to e-collaborators and alliances, Bankinter needs to increase profitability by increasing retention rate of profitable segment and increasing volume of profitable segment. Decreasing the ratio of non-profitable to profitable segment is also very important, as the non-profitable segment just takes money away.

As I mentioned earlier I would recommend using e-collaborators and brick and mortar strategies. E-collaborators is a less costly way to acquire customers, the brand is not hidden and it is way less complex than the other two strategies. It also makes use of CRM tools, thus Bankinter can gain valuable insights of its customers. On the other hand, this strategy has its drawbacks, like the lack of targeting, which should be ameliorated. I also



think the bank should keep brick and mortar strategy because it targets another segment which is also very valuable segment (less price sensitive) and is less open for technology (less open for Internet) but is an important segment.

Bankinter can also utilise CRM and other tools for E-collaborators, to do more focused and targeted marketing by placing banner advertisements on sites that the profitable customers visit regularly; so the strategy should not be lack of targeting. In addition, Ana can leverage Bankinter's deep client knowledge to maximize client potential through cross-selling. They should also introduce loyalty programs for customers because as it was mentioned earlier, it is very easy for customers to change banks (thanks to IT) and loyalty programs can enhance customer loyalty. Combining these strategies will help the bank increase profitability by increasing retention rate of profitable segment while decreasing ratio of non-profitable to profitable clients.

Bankinter could also make use of add-on selling. This is also a way to increase customer profitability by selling products and services to current customers. This could happen both by cross-selling (by selling additional products for the current customers) and by up-selling (trading up current customers to more profitable products). These could increase customer profitability and thus allow Bankinter to increase investment in customer acquisition.

Cross-selling is advantageous because it positively affects both the lifetime duration (thus retention as well), and the customer's profitability (customer

lifetime value). Bankinter must determine its primary objective for add-on selling (enhancing lifetime duration or improving customer profitability) and then target those customers who will be best help for Bankinter to achieve that objective.

When there is enough money for customer acquisition Bankinter could offer trials for new customers, but it should never forget its current (profitable) customers. Profitable, loyal customers deserve rewards from time to time.

Finally, Bankinter should not forget that customer service and product quality are important to effect retention and acquisition.

## **5. Attachments**

### **5. 1 Customer lifetime value calculations**

### **5. 2 Profit/loss vs. expected profit/loss**