SME financing:
Key points

Building SME client loyalty through effective customer relationship

Training provided under the technical assistance programme to European Investment Bank's financial sector operations in West and Central Africa

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I - Managing to develop the customer base and developing to manage it

Customer management is the engine of business development for any financial institution. Even if it is an intangible asset, the customer base is the main asset of financial institutions and the guarantee of future revenues, provided that this resource is well managed. The ultimate goal is to acquire customers, to develop the relationship to the benefit of both parties and of course to retain this clientele which will certainly be prized by the competition.

Good customer management also means developing a customer-centric sales and service culture, where all behaviours within the organization are aimed at driving purchase through customer satisfaction by providing the best possible experience.

II- Principles of customer management

Definition and approach

Customer relationship management is defined as a set of strategies, practices and technologies that allow us to know the customer and his needs and to better support him throughout the life cycle of the relationship. Indeed, customer relationship management is an activity that evolves over time. In simple terms, the role of the financial institution will be to correctly identify the needs of the customer and then propose solutions adapted to his profile. To do so, **the financial institution will have to establish and maintain contact with its customers in a proactive and regular manner.**

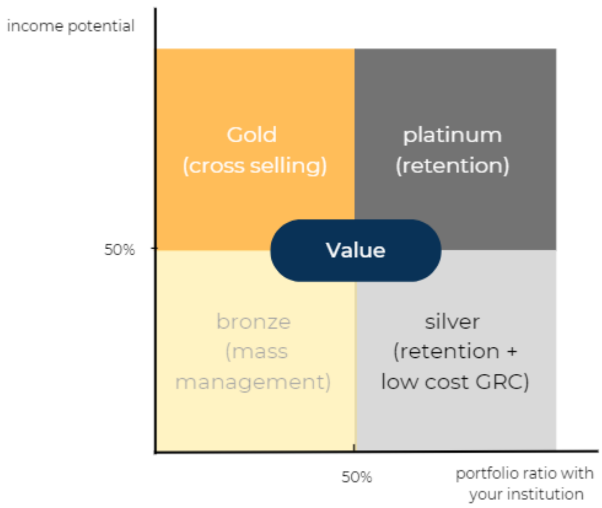
The concept of life cycle is very particular and implies that the customer relationship starts before the customer becomes a customer (prospecting stage). Moreover, this cycle should never end even for customers who have been lost for one reason or another. **Customer relationship management is therefore a continuous process (before-during-after).**

Sound customer management will help target better quality customers and make them much more profitable through effective support and attentive service. Other positive effects include reduced attrition rates, lower delinquencies, and the acquisition of new customers through referrals from promoter customers.

Good customer management practices require a high level of knowledge of the customers in the financial institution's portfolio. First of all, small and medium-sized businesses should be segmented based on their profile or needs in order to allow the financial institution to better adapt its business model, its distribution channels and its service offering, which will take the form of a Customer Value Proposition. **The principle is based on the fact that all customers deserve to be well served...but not in the same way**.

Value and potential based customer management

It is therefore strongly suggested that small and medium-sized companies be classified according to their current value and potential. The adjacent figure illustrates this approach, which allows us to identify four categories of customers, Platinum, Gold, Silver and Bronze.



PLATINUM clients are those who generate a lot of income and whose portfolio is largely held by the financial institution. GOLD clients also generate significant revenues, but the financial institution holds only a small proportion of their portfolio. Given the profitability of these customers, the financial institution must devote their best human resources to retain PLATINUM customers and cross-sell to GOLD customers.

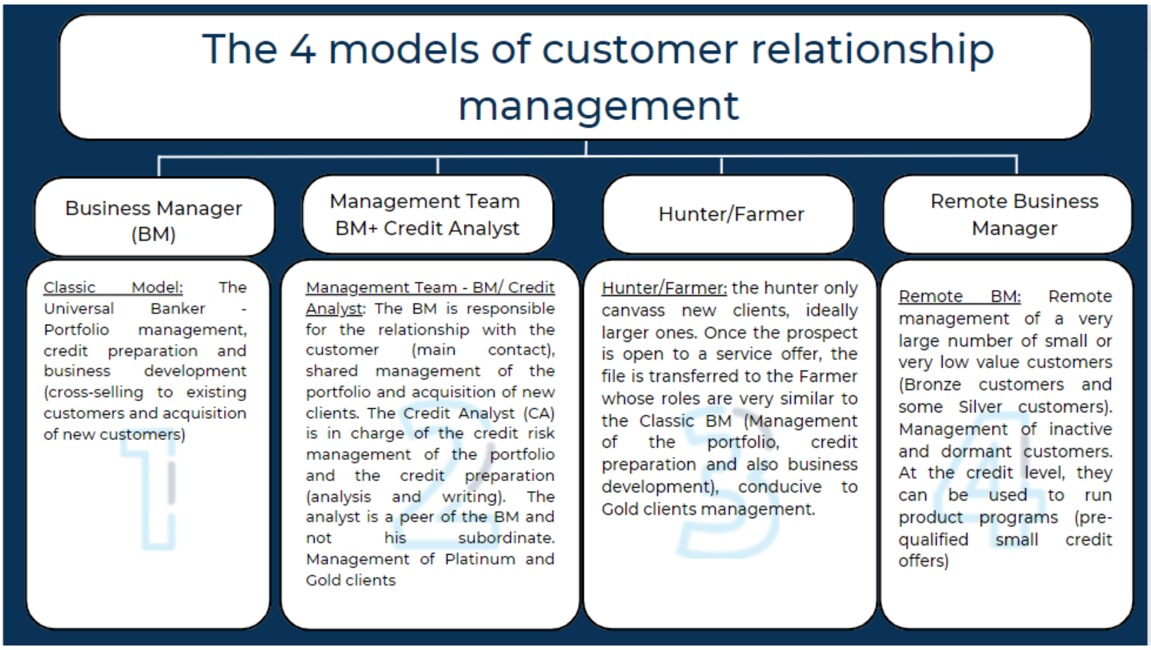
SILVER customers have much more limited needs and therefore generate less revenue. The appropriate management approach involves implementing a least-cost service model to ensure the profitability of the relationship.

BRONZE customers are often loss-making or inactive customers. The goal is to minimize the number of clients in this category by either re-pricing, cross-selling or closing the account. The portfolio manager's goal is to turn them into a SILVER client if the relationship continues.

III - Customer relationship management models

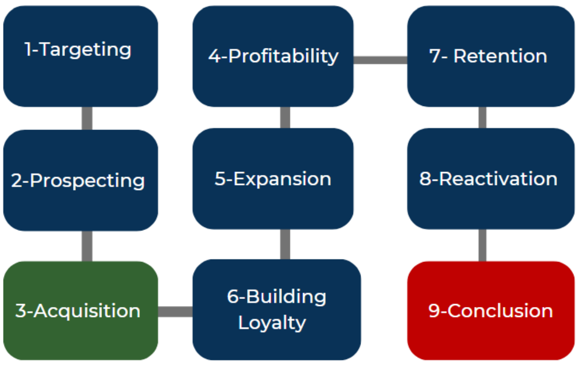
Similarly, the financial institution has the option of choosing how very small, small and medium-sized companies will be managed. Will they be managed as a portfolio or not? BRONZE and SILVER clients do not necessarily warrant personalized management, which is much more costly for the financial institution. A mass management model will ensure that no client is forgotten, which is often the case especially if the client is a non-borrower.

The four models below can be used to manage customers.



IV - Customer relationship life cycle

As previously mentioned, customer management is an activity that evolves over time. The management objectives and activities will therefore differ as the relationship evolves. The customer relationship life cycle has nine phases, corresponding to three sections: 1- customer conquest, 2- customer development and 3- customer retention. The figure below illustrates the nine phases:



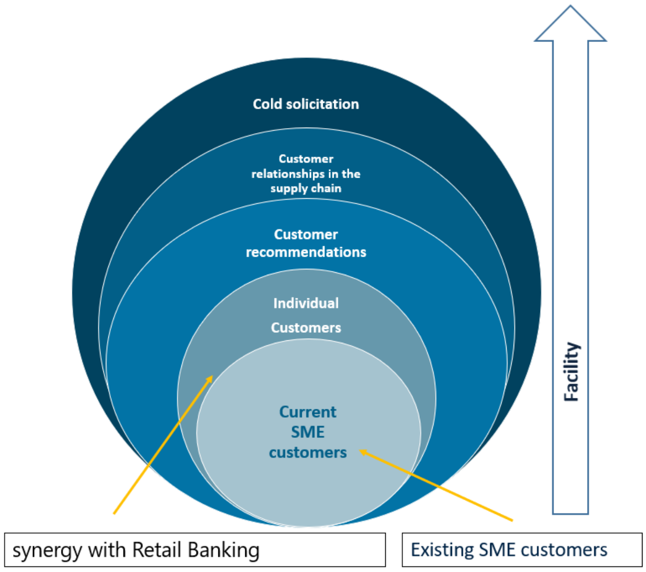
Conquest

The first three phases relate to customer acquisition. This phase includes activities related to segmentation, identification of target customers, development of value propositions tailored to the targets and planning and execution of business development activities. The two main sources of growth will be derived from the management of the existing portfolio and the prospecting of new customers through various channels.

Prioritize business development

Invest first where it promises to pay off more.

Conversion rates drop the further away from the illustrated core **RTI** concept: Return on Time Invested by the client manager.



Development

Once new customers have been welcomed using an onboarding model that provides a comfortable customer experience, portfolio managers will need to focus on developing the relationship and profiling needs on an ongoing basis to increase the customer's equipment rate. This second section of the cycle will focus on making the relationship profitable, reinforcing it and building loyalty.

Loyalty can be about providing customers with financial or non-financial benefits. However, the more valuable a customer becomes, the more attractive it becomes to the competition and the more important it is for the financial institution to seek to keep the customer satisfied. Proactive and regular contacts are the best guarantee to minimize customer attrition. **Care, know and act** should be the basis of the interaction model with the customer.

These activities translate into three simple questions:

1- How is business? (Care)

2- What are your plans for the next 3 to 6 months? (Know)

3- How can we help you? (Act)

This customer-centric business model will result in solutions that are much better adapted to the company's needs. By questioning clients on a regular basis, we get to know them better and we become much more capable of advising them well. A relationship of trust between the financial institution and its client will also limit credit risk. Clients will feel more comfortable disclosing any difficulties impacting their business and asking for help while there is still time.

Retention

The final phases of the customer relationship lifecycle relate to the need to retain customers and avoid silent attrition, especially for non-borrower customers. For customers who are already inactive, the financial institution can implement reactivation programs and even offer incentives to resume activity. It will cost less to reactivate a customer than to acquire a brand new customer. Still, the best way to minimize dormancy is to avoid it in the first place through regular contact. At the first sign of inactivity, the portfolio manager should immediately inquire about the reasons for the inactivity.

Finally, some relationships may be toxic, loss-making, or have excessive credit risks. The financial institution should not ignore these situations and take action as previously mentioned (BRONZE clients). Although painful, it is better to lose a customer than to lose money.

V - In conclusion

Effective and profitable client management is not overly complicated. Portfolio managers must have the well-being of their clients at heart, they must invest in understanding their businesses and finally, they must propose solutions that will help them succeed. The quality of support will be the differentiating factor par excellence. The quality of customer service is the only competitive advantage that can be maintained over the long term.