

A Forrester Consulting  
Thought Leadership Spotlight  
Commissioned By Blend

April 2021

# Differentiate With Milestone-Based Lending: A Spotlight On Maturity

A Deeper Dive Into Maturity Results From The Thought Leadership Paper, “How Banks Create Sustainable Differentiation With Milestone-Based Lending”



Milestone-based lending is defined as an approach whereby lenders combine the context of customers' financial milestones with their financial profiles to deliver specific offers or calls to action in near-real time.

## Introduction

Financial institutions (FIs) play a vital role in customers' lives, but more and more struggle to build deep relationships across multiple product lines. During the past decade, digital technologies have fundamentally shifted the nature of the relationships FIs have with their customers and empowered banking customers like never before with new touchpoints while expanding their available options and allowing them to select the products and institutions that best match their needs.

In the study titled "How Banks Create Sustainable Differentiation With Milestone-Based Lending," Forrester Consulting explored how FIs are working to better understand and respond to customers' life stage needs through milestone-based lending strategies. We found that success in lending is determined by how well an FI is able to identify, understand, and respond to customers' life events or milestones.

Blend commissioned Forrester Consulting to evaluate the current state of milestone-based lending demand and strategies. Forrester conducted an online survey with 2,026 banking consumers and 168 lending-strategy leaders at FIs to explore this topic. This report dives deeper into successful milestone-based strategies, and how taking this approach is correlated to better customer and business outcomes.

### KEY FINDINGS

- › **Mature milestone-based lending strategies lead to better business outcomes.** Respondents from mature FIs reported significantly stronger business performance compared to their less mature peers. Their banks are more likely to beat revenue goals, deliver better customer experience (CX), drive more effective marketing and digital transformation programs, and have better success reducing costs.
- › **Milestone-based maturity rests on three primary pillars.** To measure the milestone-based maturity of FIs, this study is focused on three pillars of milestone-based excellence: personalization, cross-product decisioning, and product configuration/customer experience. Maturity in milestone-based lending involves mastering the capabilities across these three pillars.
- › **Committing to and investing in milestone-based lending strategies drives maturity.** Respondents from more mature FIs were more likely to say that milestone-based lending strategies are important to their company's success, and those FIs are more likely to invest in capabilities that drive milestone-based lending.

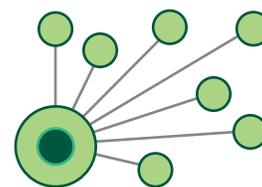
FIs that prioritize investment in milestone-based lending strategies are better able to meet customer needs and drive business performance.

# Milestone-Based Lending Positions FIs To Serve Today's Banking Customers

Empowered customers are transforming their relationships with banks, and they're changing the industry's competitive landscape in the process. To meet customers' rising demands, banks must understand that the future of customer banking will be invisible, connected, insights-driven, and purposeful.<sup>1</sup> To that end, FIs must learn to deliver high-impact, easy-to-navigate, and contextually relevant experiences to customers when and where they need them.

FIs are turning to milestone-based lending strategies to do just that. In turn, milestone-based lending rests on these three key pillars:

- › **Personalization.** Personalization refers to whether or not an FI can tailor product offers and experiences to customers at a 1:1 level. This is an essential ability when more than seven in 10 surveyed consumers said they prefer banks that speak to their life events and milestones.
- › **Cross-product decisioning.** FIs with cross-product decisioning capabilities can avoid slowdowns in the customer journey by reducing laborious and manual data entry requirements for both customers and the banks themselves. As a result, credit decisions are delivered more accurately and in near-real time, delivering a better customer experience.
- › **Product configuration and CX.** Banks that have optimized their product configurations and CX practices empower customers with self-service support, thereby avoiding overreliance on human touchpoints that can often lead to dissonant experiences. FIs with mature practices give their front-end employees the perspectives and tools required to seamlessly move the customer along the buyer journey (see Figure 1).



High-maturity FIs are more committed to milestone-based strategies, and they experience better business outcomes compared to lower-maturity firms.

Figure 1

Three Pillars Of Milestone-Based Lending

Milestone-Based Lending Programs		
Personalization:	Cross-product decisioning:	Product configuration/CX:
The ability to tailor product offers and experiences to the customer at a 1:1 level.	The ability to instantly deliver a qualified lending decision across product lines for qualified customers.	The ability to promote self-service and reduce friction in the customers' purchase journey.
Personalized recommendations	Data integration	Self-service conversion innovation
Dynamic segmentation	Instant decision	Omnichannel CX
Personalized omnichannel experiences	Integration management	Speed-to-market
Martech ecosystem integration	Credit and risk policy management	Conversion optimization

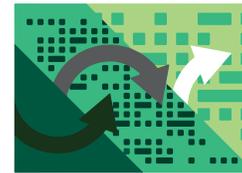
Source: A commissioned study conducted by Forrester Consulting on behalf of Blend, October 2020

For this study, FI leaders assessed their banks on each dimension, and Forrester used the results to create a maturity model and distribution. Banks that scored in the upper 40% across the dimensions are rated as high-maturity banks, while those that scored below average are rated as low-maturity banks. By looking at the differences between the high and low groups, this study demonstrates that high-maturity FIs are more committed to investing and prioritizing milestone-based strategies, and they also are more likely to perform better against key business objectives, including annual revenue.

## High-Maturity FIs Dedicate Themselves To Milestone-Based Lending

Mature FIs are committed to milestone-based lending strategies, and they use that commitment to create differentiated experiences for their customers. Fundamental to this commitment is a belief that milestone-based lending drives success. Indeed, respondents from high-maturity FIs were more likely to say that milestone-based strategies are a success driver for their business. They were also 48% more likely to say that milestone-based strategies are very important to business performance compared to respondents from low-maturity FIs.

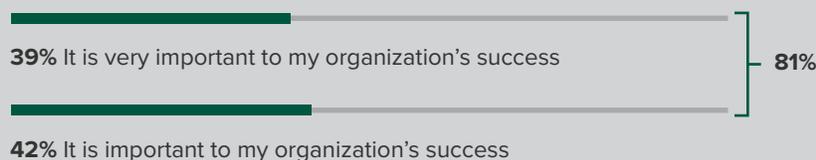
Tellingly, more-mature FIs are also doubling down on their milestone-based lending investments during the next several years. Seventy-two percent of respondents from high-maturity FIs said they plan to increase their bank's milestone-based investments through 2022, and 14% indicated their investments will climb by 10% or more (see Figure 2).



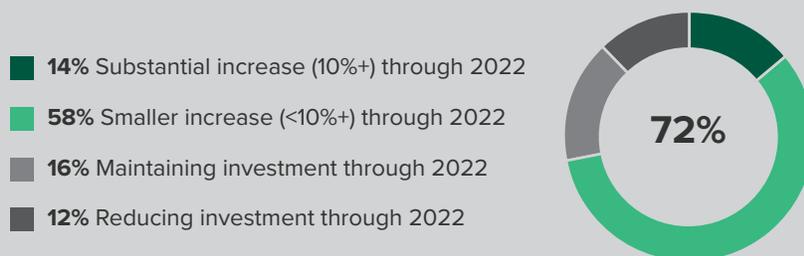
Mature FIs are willing to increase their investments in milestone-based tools because they consider them to be critical to their success.

**Figure 2**

**“How important do you believe milestone-based marketing is to your organization’s success?”**



**“Which of the following best describes your organizations’ plans to invest in milestone marketing two years from now?”**



Base: 63 decision-makers from North American FIs with high-maturity milestone-based lending strategies

Source: A commissioned study conducted by Forrester Consulting on behalf of Blend, October 2020

Respondents from high-maturity FIs were 60% more likely than those from low-maturity FIs to say that milestone-based strategies are important or very important to their bank's success. That's why 72% plan to increase their investments through 2022.

Even lower-maturity FIs are more likely to increase their spend on milestone-based capabilities; they just do so at a lower rate than their high-maturity peers. A majority of respondents from low-maturity firms (54%) said their banks are planning to increase spend through 2022. This trend indicates that high-maturity FIs that have seen their commitment to milestone-based lending programs pay off are looking to broaden their competitive gaps in the near future.

## Milestone-Based Lending Maturity Goes Hand In Hand With Better Business Outcomes

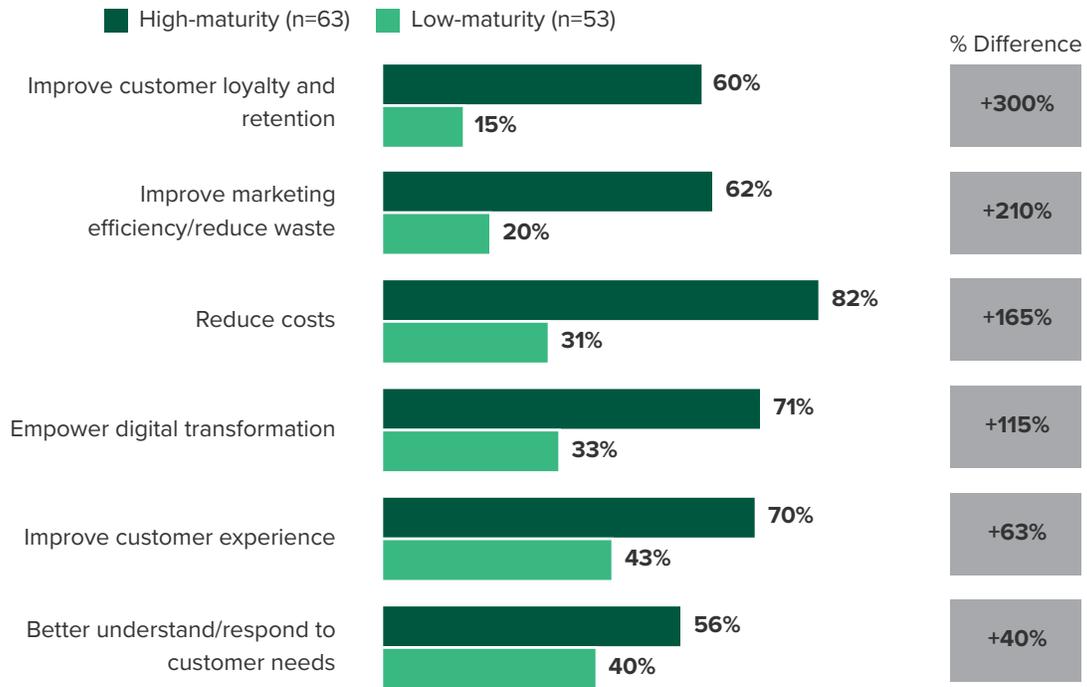
Of course, FIs aren't going to invest and commit to building milestone-based strategies and capabilities just for the sake of it; they need a tangible business benefit. Indeed, this study demonstrates that more-mature FIs experience obvious and tangible benefits at a much higher rate than their less mature peers do. These benefits include:

- › **Improving customer loyalty and retention.** One of the few sustainable competitive advantages for brands is earning the loyalty of customers, which drives stronger retention, share of wallet, brand advocacy, and more.<sup>2</sup> Respondents from mature milestone-based lenders reported a 300% increase in performance on customer loyalty and retention.
- › **Delivering more efficient marketing.** Marketers across verticals are increasingly held accountable for the financial returns of their efforts.<sup>3</sup> Respondents from mature FIs were more than twice as likely to say their bank had met or exceeded its marketing efficiency goals compared to those from less mature FIs.
- › **Reducing overall costs.** By powering cost-control measures like automation, consumer self-service, and the aforementioned marketing efficiencies, milestone-based strategies help banks shore up their operational efficiencies. Therefore, it's not surprising that mature milestone-based lenders were 1.65 times more likely to have succeeded at reducing costs last year compared to less-mature banks.
- › **Driving digital transformation.** Most of the surveyed banking technology leaders believe their FI needs to commit to building digital experiences, develop and launch digital products, and innovate on business models, operations, and technology to compete in an era of empowered customers. This is the core of digital transformation. Mature FIs are 115% more likely to achieve their digital transformation goals over their less-mature peers.
- › **Improving CX.** Forrester's extensive research on customer experience demonstrates that as brands deliver better CX, they grow revenue faster, drive higher brand preference, and they are able to charge more for their products.<sup>4</sup> Mature firms in this study enjoy 63% better performance against their CX goals, positioning themselves for competitive advantage.

› **Better identifying and responding to customer needs.** The primary study clearly demonstrated that banking customers choose products based on their financial context and needs, rather than by rates or feature sets. Three-quarters of respondents from FIs said they recognize that meeting important customer needs with relevant milestone-based strategies will be an important determiner of success. Having a mature milestone-based programs correlates to a 40% improvement in an FI's ability to understand and react to what its customers want (see Figure 3).

**Figure 3**

**“How would you rate your company’s performance against its key business goals this year?”**



Base: Variable, decision-makers from North American FIs with oversight into lending practices specific to loan products/strategy

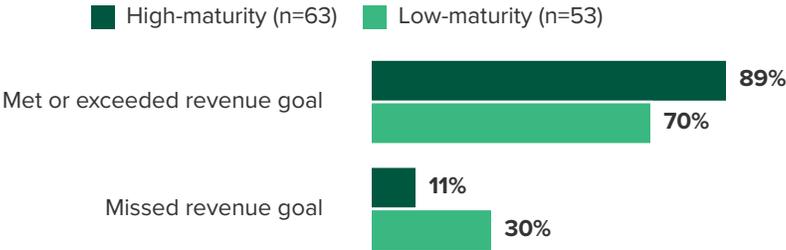
Note: Showing “Achieved” and “Overachieved”

Source: A commissioned study conducted by Forrester Consulting on behalf of Blend, October 2020

These are starkly differentiated outcomes, but financial outcomes are what ultimately drive and determine success. Mature milestone-based strategies also deliver a major competitive advantage here, as the revenue performance of mature banks dwarfs the results of their less-mature peers. Almost 90% of respondents from mature FIs said their bank met or exceeded its revenue goals last year, compared to just 70% from low-maturity banks. Therefore, low-maturity banks are nearly three times more likely to miss their prior-year revenue targets (see Figure 4). Having mature and effective milestone-based strategies positions banks for revenue excellence by helping them deliver better customer outcomes through more contextually relevant and effortless experiences.

**Figure 4**

**“How did your company perform against its revenue goals last year?”**



Base: Variable, decision-makers from North American FIs with oversight into lending practices specific to loan products/strategy  
Source: A commissioned study conducted by Forrester Consulting on behalf of Blend, October 2020

# Key Recommendations

Forrester's in-depth survey of banks and banking customers about milestone-based lending strategies yielded several important recommendations:



**Prioritize your effort and investment on strategies that drive better CX and business results.** The FIs in this study that have developed more-mature milestone-based lending strategies are more likely to increase their investments in these programs. Why? It's because the programs are proven to lead to more effective, more relevant, and more satisfying customer experiences that will drive greater satisfaction. Milestone-based strategies enable FIs to better target, reach, and serve their customers, and they are strongly coordinated with better overall business performance.



**Identify where you are on the maturity model: Start with data integration and then focus on front-end experiences.** The first step is establishing and then improving your organization's current state. For most FIs, the first step will involve data integration. The data infrastructures for FIs are far too heavily siloed with different teams and lines of business owning different data sets. Milestone-based lending approaches, which require having a 360-degree view of the customer, cannot take off in this condition. Your integration efforts should involve mapping out the martech in use within your organization. It also requires getting steeped in your company's data strategies and data governance models. The goal is not to take over these efforts, but to steer them in a way that enables stronger and more effective milestone-based lending.



**Test and measure milestone-based efforts early and obsessively.** For example, as you roll out a new milestone-based product recommendation service or you redesign your loan application task flow, measure every iteration using A/B testing and user lab testing. External partners can help FI leaders in two ways: 1) they can help conduct the actual testing and measurement and 2) they can use their existing testing and measurement data to guide you as your FI pursues a milestone-based lending approach.



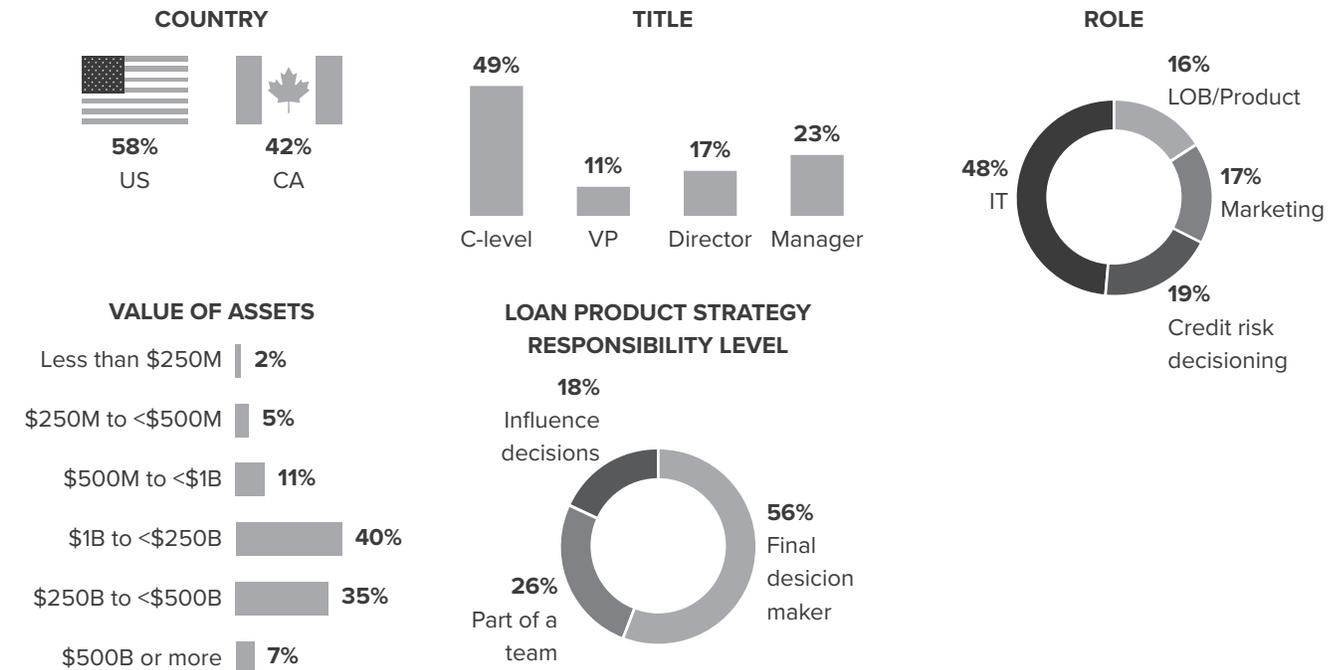
**Find partners that help you develop and augment platform capabilities.** Ultimately, milestone-based lending will (and should) involve more than just tactical initiatives, although these initiatives will have a major impact and pay dividends for FIs. Leading FIs should look to external partners they can collaborate with to drive a bigger shift: turning parts of the business into platforms will drive sustained growth. Technology partners that enable platform capabilities will be essential for any FI looking to level-up its lending, especially as the COVID-19 pandemic and other macroeconomic factors reshape markets and consumer behaviors.

## Appendix A: Methodology

In this study, Forrester surveyed 168 decision-makers from North American FIs with oversight into lending practices that are specific to loan products or strategies and 2,026 North American consumers who opened a loan in the past 12 months. Respondents were offered an incentive as a thank you for time spent on the survey. The study began and was completed in October 2020.

## Appendix B: Demographics

### CONSUMER



Base: 168 decision-makers from North American FIs with oversight into lending practices specific to loan products/strategy  
 Source: A commissioned study conducted by Forrester Consulting on behalf of Blend, October 2020

## Appendix C: Endnotes

- <sup>1</sup> Source: "Reinvent Your Bank To Remain Relevant," Forrester Research, Inc., February 9, 2021.
- <sup>2</sup> Source: "Do The Right Thing: Advocating For Customers Drives Loyalty At Financial Firms – 2020," Forrester Research, Inc., January 14, 2021.
- <sup>3</sup> Source: "The Financial Payback For Marketing Measurement," Forrester Research, Inc., August 28, 2020.
- <sup>4</sup> Source: "The US Banking Customer Experience Index, 2020," Forrester Research, Inc., September 1, 2020.

To read the full results of this study, please refer to the Thought Leadership Paper commissioned by Blend titled, “How Banks Create Sustainable Differentiation With Milestone-Based Lending.”

**Project Director:**

Nicholas Phelps,  
Senior Market Impact Consultant

**Contributing Research:**

Forrester’s eBusiness and  
Channel Strategy research group

**ABOUT FORRESTER CONSULTING**

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester’s Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit [forrester.com/consulting](https://forrester.com/consulting).

© 2021, Forrester Research, Inc. All rights reserved. Unauthorized reproduction is strictly prohibited. Information is based on best available resources. Opinions reflect judgment at the time and are subject to change. Forrester®, Technographics®, Forrester Wave, RoleView, TechRadar, and Total Economic Impact are trademarks of Forrester Research, Inc. All other trademarks are the property of their respective companies. For additional information, go to [forrester.com](https://forrester.com). [E-48168]