

A Case Study:
The Phelon Group Helps Higher
One Set the Bar for Client Centricity

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Executive Summary

Higher One, a rapid growth startup, provides financial services to students and delivers on its founders' promise of customer-centricity. In early 2006, Higher One tapped into the Phelon Group's unique expertise to help translate client insight into action.

About Higher One

Leadership

- Dean Hatton, President and CEO
- Mark Volchek, Founder, Chairman, and CFO
- Miles Lasater, Founder, COO
- Sean Glass, Founder, CMO

By the Numbers

- Institutional Clients--Private and public colleges and universities: 82
- Students Served: 800,000
- Account Holders--Students, faculty and staff: 250,000
- Funds Disbursed: \$ 2.5 billion
- Three-year CAGR, Revenues: 1748%
- Founded: 2000
- Ownership: Private

Business Issues

Meet the company's rapid growth goals profitably and with consistent attention to customer needs. To achieve this agenda, the company needed:

- Proactive referrals, client advocacy and unbridled word of mouth
- Retained relationships, an increasing footprint and viral demand for its services within America's colleges and universities
- A rapid cycle of product and service innovation that would further differentiate the company in the competitive financial services marketplace
- Continued profitable and exponential growth

The Phelon Group Solution

Since 2006, The Phelon Group has worked with Higher One's leadership team and customer-impacting employees to define and implement a set of corporate practices and metrics that transform the "voice of the client" into a continual cycle of growth. The work resulted in:

- A systematic method for regularly taking the pulse of the client and measuring the impact of actions on retention and referrability
- A pool of reference-ready clients for leveraging as advocates in word-of-mouth campaigns

What it Really Means to Be Client Centric

Through years of client interactions, Higher One has heard one loud and clear message: listening to clients doesn't make a company client centric; taking action does.

A new breed of financial services company, Higher One specializes in a market overlooked by traditional banks and credit card companies--higher education. The company provides colleges and universities with electronic options for disbursing student financial aid payments, refunds and payroll. Students get their money faster, without standing in long lines on campus, because funds are electronically transferred to their Higher One student ID/debit-card, which is good for school-related purchases anywhere MasterCard is accepted. Universities gain a competitive advantage by providing a service that fits the lifestyle of a generation of students used to instant everything; they also save money by automating the paper-based, manual processes associated with issuing checks.

Beyond those benefits, Higher One serves the higher mission of higher education. "The Higher One debit-card cultivates financial awareness and responsibility in students, and graduating financially responsible citizens is good for the economy," says Frank Parker, Vice President of Student Services at Sam Houston State University (SHSU) in Huntsville, Texas. In SHSU's search for a one-card solution, Higher One rose to the top as the only financial services company with a product that met all SHSU strategic requirements.

THE ONE MEASURE THAT MATTERS

In Higher One's market, being client centric is a bottom-line necessity. Higher education is a static market, limited to approximately 5,000 institutions in the United States, which gives retention and in-account growth extra importance. In a rare move, Higher One has set--and reached--its customer-centric business goal: 100 percent of college and university clients retained and referencable. When it comes to student banking--customers, the company also seeks to keep its attrition rate below 15%--the norm for the retail banking industry.

Results like these illustrate that Higher One is a company doing more than paying lip service to client centricity. What makes Higher One truly client centric is its passion for clients and a core competence in action that permeates every aspect of the business.

UNLOCKING CLIENT CENTRICITY: THE FIVE ESSENTIALS

How has Higher One managed to attain such results?

1. Integrate clients into the decision-making process and rely on them as co-innovators.

Higher One developed its initial product by tuning into the frustrations of college students and by probing university leadership. "The key was listening to administrators and CFOs and designing a unique solution. No one had listened before and focused on solving this set of problems," says Miles Lasater, Higher One's COO and Founder. Today, a steering committee of six key university clients advises on and tests new products and enhancements.

2. Organize to execute.

Higher One has also organized to execute quickly by putting clients at the center of the business instead of structuring around product lines or services as more traditional companies do. In response to a client perception audit conducted by The Phelon Group,

Higher One created a dualistic client advocacy organization in which one group focuses on the interests of university clients while the other carries the flag for student clients. The company prioritizes by acting where the needs of both client segments intersect. "Where we can't solve a client issue on business level, we listen and embrace the problem on a human level," says Lasater.

3. Shorten the path of accountability.

A flat organizational structure serves Higher One--and its clients--in two ways. First, it puts executives literally within earshot of client service and account management so executives hear client issues every day. Second, the flat structure drives accountability to the front line. Without lengthy approval processes, the result is fast action that truly impresses clients. SHSU Vice President Frank Parker says that Higher One is so quick to respond to issues that they make other vendors look ineffective by comparison.

4. Hire and train people for the "there is a way" mindset.

Higher One initially hired people with direct experience and connections in higher education—criteria that are no longer on its list. "We hire based on general experience and interpersonal skills and give employees the tools they need to deliver stellar service," explains Lasater.

The company, whose philosophy is "there is a way," also strives to provide clients with a custom experience. Clients have noticed. "Higher One employees take pride in coming up with solutions," says Kristy Vienne, Director of Bearkat OneCard Services at SHSU. "They listen, take the information, turn it into a plan and implement it." Streamlined communications to students, improved reporting to quantify business impact, and forums to win buy-in from skeptical faculty are just a few of the custom solutions Higher One quickly delivered to meet SHSU's requirements.

5. Activate processes that harness client loyalty.

Higher One's commitment to action has led to strong, vocal advocates and considerable buzz in a market driven by word of mouth and peer references. Opinion also travels fast among students, who form a tight campus community that IMs, blogs and twitters. And university administrators at prospective colleges tend to consult with colleagues before calling Higher One. "The result is that we are held to a high standard by our customers," says Lasater.

CMO Sean Glass recognized that, to build on and leverage the firm's client loyalty to continue to drive growth, Higher One would need a systematic, scalable way to capture and act upon client perceptions. "The Phelon Group helped us create an infrastructure that enables us to gather client feedback and turn the insight we gain into action that has measurable impact on client retention and referral," he says. The infrastructure incorporates the Net Promoter® concept, detailed at www.netpromoter.com.

"Net Promoter is a powerful tool that, when adopted at the executive level and supported by a cross-organizational strategy, reveals the dials to turn to increase client loyalty," says Phelon Group President Steven Nicks.

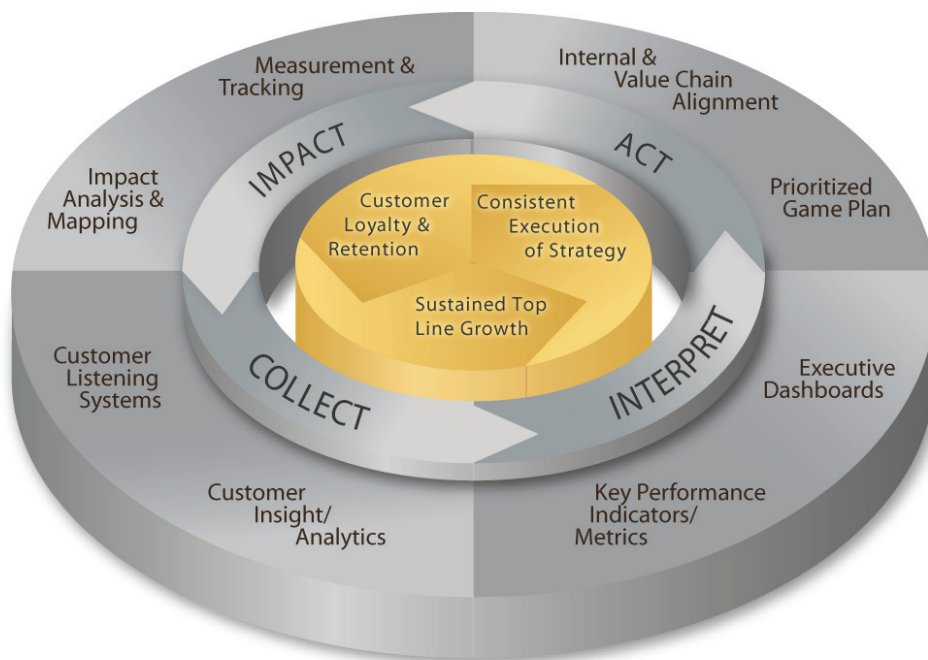
To put the infrastructure to work, Higher One took a baseline survey and profiled clients who reported as detractors, passives and promoters on the Net Promoter scale. Building on that groundwork, Higher One surveys its clients at least three times a year, preferentially after a lifecycle event trigger such purchase, implementation, upgrade, and the spring and fall

refund periods. Based on the results of those surveys, Higher One then follows a repeatable process of identifying potentially high-value actions, testing hypotheses, deploying validated actions and measuring change in Net Promoter scores.

Higher One uses Net Promoter scoring in three ways. Tactically, the company identifies, addresses and closes specific client issues that surface. It also identifies clients willing to refer Higher One for leverage in word-of-mouth campaigns. Strategically, the company also plans to use results to inform financial and operational planning for 2008.

“The customer-centric infrastructure that The Phelon Group helped us build enables us to gather client feedback and turn the insight we gain into action that has measurable impact on our business goal for 100-percent client retention,” says CMO Glass. Casey McGuane, senior vice president of Client Operations at Higher One, echoes that sentiment: “We used to talk a lot about how clients feel--we didn’t have a way of tangibly qualifying or quantifying their feelings. Net Promoter allows us to be on the same page,” he says. “This is how we want to grow the company.”

Phelon Group Voice of Customer Methodology



A Repeatable Approach to Becoming Client Centric

The Phelon Group Voice of Customer Methodology

Most companies are swimming in customer data--surveys, customer interviews, roundtables and Web and transaction data often overwhelm traditional systems and ways of thinking about a company's relationship with its customers. The Phelon Group's methodology is designed not only to effectively and consistently listen to, evaluate the needs of and grow a company's most precious asset--the customer--it is also designed to readily turn that insight into business impact.

"The customer-centric infrastructure that The Phelon Group helped us build enables us to gather client feedback and turn the insight we gain into action that has measurable impact on our business goal for 100-percent client retention." –Sean Glass, Founder and CMO, Higher One

THE ROADMAP TO CLIENT CENTRICITY FOR HIGHER ONE

- **Audit customer perceptions.** Emotions drive business decisions. Find out why customers buy, their true pains and future needs, as well as their perception of your company and the alternatives. The Phelon Group performed a customer perception audit for Higher One by listening to the company's clients and establishing a baseline against which to measure.
- **Act.** Companies are swimming in data that does not spawn action. The Phelon Group and the Higher One executive team created actionable business recommendations that drove change and helped the company close the gap between assumptions and client reality.
- **Establish a common process, vocabulary and metrics** for assessing customer delight. Alongside the Higher One marketing team, The Phelon Group established a Net Promoter program and survey of the company's clients. Asking how likely customers are to recommend your company pinpoints who your promoters, passives and detractors are. Net Promoter Score is an ideal and simple metric for affecting and monitoring change.
- **Build an infrastructure for monitoring and influencing loyalty.** An infrastructure institutionalizes policies and processes for gathering customer feedback, analyzing trends, identifying potentially high-value actions, testing hypotheses, deploying validated actions and measuring change in Net Promoter indicators of loyal behavior.

About Higher One

Focused exclusively on higher education, Higher One provides Refund Management to higher education institutions and banking services to members of their community through a card-based solution. Higher One's integrated solution helps its clients reduce administrative costs, streamline business processes, create new revenue streams, increase student customer service and strengthen the campus community. Visit Higher One at www.higherone.com.

About Sam Houston State University

Founded in 1879, SHSU is one of oldest institutions of higher learning in Texas. The University offers 79 undergraduate degree programs and 53 postgraduate degree programs. Of the 15,900 enrolled at SHSU, 76 percent have adopted the Higher One debit account and use it for purchases on and off campus. View the University's Web site at www.shsu.edu.

About The Phelon Group

The Phelon Group is a strategic consultancy that helps organizations break through revenue barriers by harnessing customer insight and the key metrics that drive double-digit growth: customer retention, referrability and repurchase. Our work provides companies with a view into their customers and incorporates customer feedback into the decision-making process. The strategies we recommend and the programs we design and implement strengthen customer relationships, improve sales and build a sustainable growth path to overcome barriers to growth. The Phelon Group works with a select group of leading high technology, financial and business services companies such as Amdocs, EDS, Hewlett-Packard, Mellon Investor Services and Network Appliance. Visit us at: www.phelongroup.com.

Net Promoter® is a registered trademark of Satmetrix Systems, Inc., Bain & Company and Fred Reichheld.



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