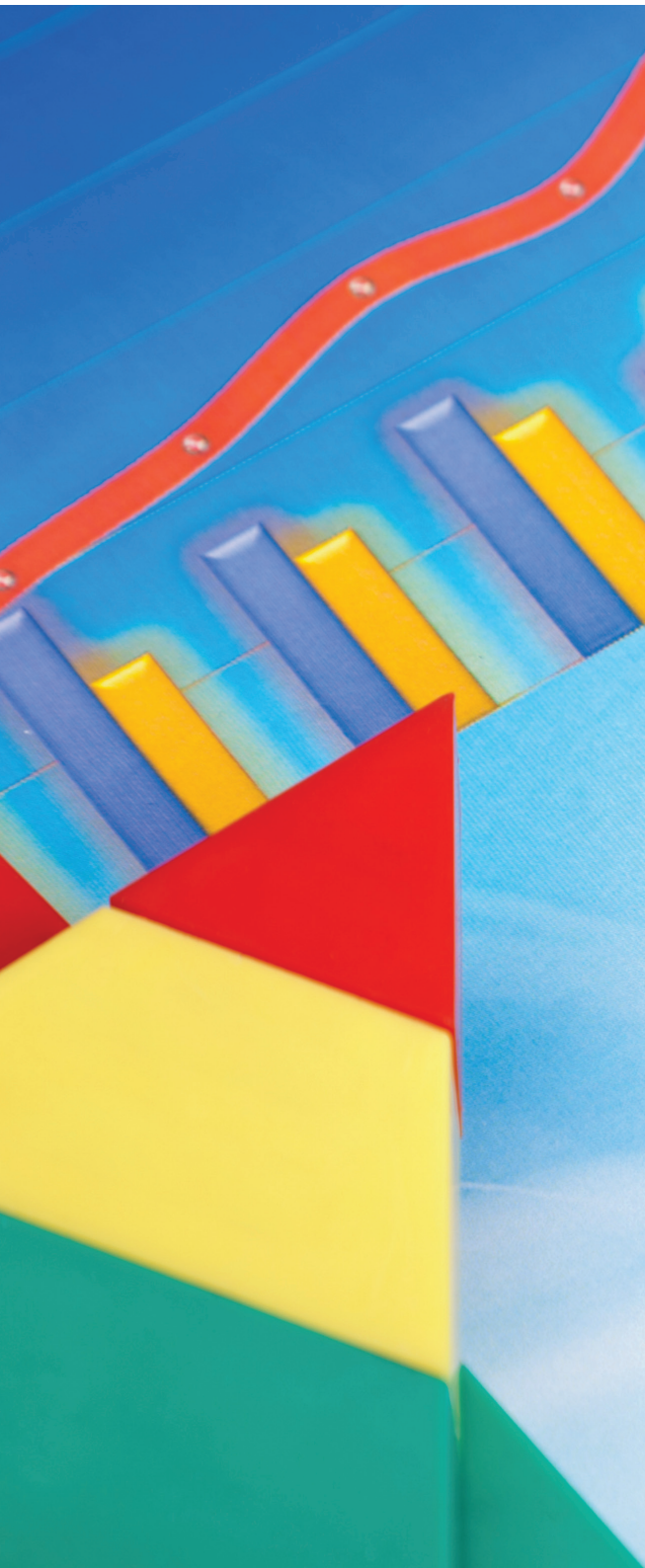


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The Power of Aggressive Analytics

If your bank aspires to be more customer-centric, you need to bulk up to a more muscular analytics approach. That means bolstering your method for securing and integrating data; upgrading your analytics capabilities; and applying more effective measurements to your marketing mix.

BY CARLOS CASTRO



MANAGERS AT A LEADING RETAIL BANK believed there was a significant opportunity to attract high net-worth customers, but wanted to test their supposition prior to rolling out new services. The test would take the form of segmentation and market mix modeling studies, evaluating behavior of high net-worth individuals versus all other bank customers to different types of promotional activity.

However, the bank faced a significant obstacle: Data on high net-worth and other bank customers was spread all over the organization, rendering any type of meaningful analysis impossible.

Engaging with a leading consulting and analytics organization, the bank organized a series of templates and processes enabling personnel in each department to enter information into a central repository available to all decision makers.

After reorganizing the information, managers applied predictive analytics solutions and ran a series of “what if” scenarios focused on activities such as increasing the marketing budget in one type of promotional activity versus others.

One of the many findings revealed that high net-worth individuals have a higher response rate to telemarketing, and online

advertising and promotions, while all other bank customers responded better to traditional print and television advertising.

With this in-

formation in hand, managers reallocated the marketing budget and achieved a 40 percent increase in marketing return on investment (ROI).

The example shows the potential power of robust data collection in connection with the use of strong analytics. In the section below, we will discuss the steps that a bank needs to take in order to reach this level of strong marketing ROI.

Let’s start by looking at some of the challenges retail banks face that might be easier to overcome with a more robust dose of analytics: Differentiation remains difficult. Many consumers feel most banks offer the same products and services, charge too many fees, fail to provide high-quality customer service and are simply a “necessary evil.” Other types of companies continue to encroach on traditional banking businesses. Many retailers offer credit cards and other banking-type products. Brokerages often offer checking and other accounts traditionally provided exclusively by banks.

Until recently, financial services marketers lacked the data to track customer behavior—the analytical solutions to gain new, discrete insights into customer activity; technology platforms that could integrate and process massive amounts of data in just

a few minutes or hours; and the organizational structure and marketing skills to react quickly.

As financial services marketers begin the process of better utilizing information to answer critical questions about their customers, they must start with identifying the challenges to address. The most critical of these include:

- Creating a “single point of truth” about each type of customer; i.e., ensuring all units within the institution work from one central repository of customer data.
- Identifying “high-value” customers, based on both “size of wallet” and “share of wallet.”
- Determining the success rates of existing marketing activities, especially the interplay between online and offline campaigns.

Steps to a customer-centric institution

What does the ideal customer-centric financial services institution look like? For one thing, it treats information as a competitive tool. It defines very small, discrete customer segments by learning all it can about these microsegments, and then develops integrated marketing strategies customized for each segment’s needs. Information may enable financial institutions to become customer-centric organizations, but the transformation is frequently complex.

Building a customer-centric financial institution requires several steps. These steps are outlined below.

1. Create a single point of truth.

Inside many financial institutions today, each product group collects customer data in different formats and stores it in different databases. As a result, even groups that try to share data are unable to do so due to issues as basic as incompatible file formats. In addition, each product group has differing definitions of high-value customers, growth strategies and marketing campaigns that create wildly different perceptions about the institution among customers and diluting the value of the institution’s brand.

The first step in building a customer-centric approach consists of integrating customer data from all sources within the institution, reviewing this data to ensure it will provide a comprehensive customer view, and then running a single set of analytics to obtain the critical insights necessary to develop an integrated set of strategies.

Creating an integrated organizational structure is another important component of the “single point of truth.” Even if marketers from multiple product groups obtain the same data, these institutions will fail to deliver a clear value proposition without an integrated approach to introducing and supporting products and services.

2. Identify high-value customer segments.

With integrated data and analytics in place, financial service marketers gain the ability to define the high-value customer. Marketers can then overlay any commercial constraints that would preclude a customer segment from being high value; e.g., customers in the segment have financial needs that the

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institution cannot meet or are proscribed from meeting due to state or federal regulations.

When defining segments, it is important to remember:

- There must be clear differentiation between segments or any analysis is meaningless.
- Developing products for the segment must fit with the financial institution's brand positioning or the brand becomes confused.
- The segment will provide a long-term benefit to the institution as measured by revenue, income and/or competitive advantage.

3. Understand motivations

For an institution that serves multiple customer segments, marketers must understand the motivating factors that encourage customers in each segment to utilize that institution. Is it low fees? Is it a long-standing relationship with a banker? Is it advertising and promotions? It is likely the motivators are different within each segment.

4. Validate the economic value of the segment.

In addition to determining if the brand is right for the customer, financial services marketers must determine if the customer is right for the brand. Economic modeling can determine how the financial institution will earn the income, margin and market share to make each customer microsegment attractive.

5. Plan to scale.

When implementing customer-centric strategies, marketers should think big. It's important to run simulations to ensure all the pieces of the strategies work together, but it's also important to scale fast to take advantage of the market opportunities identified by analytics.

6. Collaborate with everyone in the bank who touches the customer.

Everyone within a financial institution who "touches" the customer should collaborate. Some financial institutions, for example, have differing product groups that touch the customer: retail banking, credit card group, mortgage group and so forth. Some of these products and services are outsourced to organizations outside the bank. Each of these groups has varying information about the customer and may treat the same customer differently. For example, a customer may have a significant balance in a checking and savings account, but be turned down for a credit card or be given a low limit because the retail banking group and credit card group have different information about the customer.

Cooperation between product groups can help create a more customized experience for the consumer by aligning the information of the financial institution's groups (as well as those of affiliated partners) and thereby taking advantage of any new insights.

7. Integrate marketing analytics with new digital media.

Just as a stock market plunge can rattle the financial services industry, digital media has transformed financial services marketing. Digital media includes online advertising and marketing in addition to campaigns on Facebook, YouTube, Twitter and other social media.

As digital media spending has moved from an experiment into a prime marketing tool, financial services marketers must now think strategically about how to integrate it into the comprehensive marketing mix. They must also evaluate each marketing activity's impact on the consumer independently and also understand how each activity affects other activities; e.g., how do messages in a TV or print campaign impact online consumer behavior? As digital media spends increase, senior management teams will want to know the ROI of digital programs and the uplift it brings to the entire marketing program.

Today, the successful marketing program includes quantitative and qualitative approaches to measure each activity within the marketing program as well as the effect and cross-benefit of how activities interrelate. An example of this would be testing specific words and phrases in traditional advertising media (print, radio, television) and then monitoring traffic to the institution's website. If there is a spike in website activity, specifically to the area on the website where the product that was the subject of the ad was highlighted, that would indicate the effectiveness of the ad. Similarly, if an institution promotes a specific product or service on its website that encourages customers to visit a branch, and branch traffic increases, that would indicate the effectiveness of the promotion.

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8. Define clear objectives.

For each marketing activity and the marketing campaign as a whole, it is critical to begin by identifying clear objectives, based on an intimate understanding of each customer segment, including specific preferences and biases.

Marketers can then apply new, powerful modeling and analytic programs that isolate a single or group of variables, simulate media buys and determine ROI. It is important to include econometric information in these models and analytics to gain the most accurate picture of consumer activity.

9. Discover new opportunities

In addition to measuring the effectiveness of online, offline

and integrated campaigns, today's new econometric models also include macroeconomic data. As a result, financial services marketers can determine market saturation by testing the impact of increased spending in either single or multiple key markets through a modeling approach that is much more

indicative of actual consumer behaviors than if the models focused on campaign results alone. The result is a true "apples-to-apples" comparison of the effect marketing activity has on consumer behavior.

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10. Add predictiveness to the marketing "portfolio"

Today's new financial services marketing models provide quantitative and qualitative backward visibility into the ROI for each marketing tactic and the marketing program as a whole. In addition, these models can diagnose reasons behind changes in business performance over time based on a broad set of internal and external factors.

Equally as important, today's models can enable marketers to forecast the future and predict the results of shifts in the mix of marketing tactics as part of response planning. This capability allows marketers to optimize their spending across the mix of media they employ as well as deliver causal and predictive forecasts.

Organizations have enjoyed improvements in marketing ROI of up to 40 percent within 12 months by adopting new modeling techniques. However, it's important to note that modeling is just one product in the financial services marketer's portfolio; models will never be able to predict 100 percent of sales activity.

In addition to time-proven techniques, such as Marketing Mix Modeling (MMM), there are several newer or complementary techniques that together contribute to providing marketers a holistic view of consumer attitudes and behaviors. Three approaches especially relevant to the financial services industry include:

- **In-Market Tests:** When models are first applied to a financial institution's data, there are typically a significant number of "big insights." Acting on these insights would entail a large amount of risk that marketers may want to mitigate. Market-level testing of new marketing approaches, especially digital media activity, can validate the opportunities they create.

- **Consumer Funnel Analysis:** By applying modeling techniques to each point of the consumer "funnel," marketers are able to understand the impact of marketing efforts at each step of the consumer's decision-making process and then link changes in funnel metrics to financial metrics. This allows marketers to create a balance between achieving short-term sales and long-term brand building.
- **Agent-Based Modeling:** This approach simulates activities and interaction among a series of agents, such as customers and competitors, with the goal of evaluating their impact on a market segment in its entirety. Marketers then combine these models to simulate the impact of concurrent change in "agents" and complex interactions across these "agents."

A way to better understand customers

The economic challenges of the last three years have provided a wake-up call to financial services marketers. While implementing the more aggressive approaches for securing and integrating data, applying analytics, adding predictiveness and creating more effective measurement approaches to the marketing mix will require significant effort, the benefits will be worth the initial investment.

This is an outstanding time for marketers to be applying analytics more aggressively to their plans. Robust data exists for periods of strong, weak and stable economic conditions. This allows marketers the ability to analyze people's behaviors and attitudes in each type of environment. In addition, marketers that study this data now will be best prepared to anticipate behavioral shifts the next time economic conditions evolve.

As digital media spends increase, senior management teams will want to know the ROI of digital programs and the uplift it brings to the entire marketing program.

Marketers will get a much better understanding of who are their customers in addition to their attitudes about different types of financial products. They will also gain the ability to predict the future needs of these customers. ■

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