Embrace the Data-driven Marketing Plan

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WHITE PAPER

HARLAND CLARKE | MARKETING SERVICES

Executive Summary

A sound marketing plan for any bank or credit union must be based on solid metrics derived from expert analysis of account holder data. However, marketing executives, especially at smaller institutions, often face steep hurdles in their ability to access and use this data. This white paper discusses why and how to create a solid marketing plan that uses account holder data and analytics to support an institution's goals and objectives.

Have you met Dave? Dave is a senior marketing executive at a small local community bank in the Midwest. He spends every third and fourth quarter helping his team develop a marketing plan for the following year and ushering it through the management approval process. But inevitably, Dave is frustrated. He often feels like he's working in the dark. He would like to see definitive evidence of how well his current marketing efforts are working — and so would his CFO. He'd like to know exactly how his institution stacks up against competitors with regard to key metrics such as product penetration and cross sell potential. And he'd like to have a more accurate read on which account holders are most likely to attrite and which are most likely to be shopping for a loan so he can target them more effectively. But the predictive data and ROI measurements are not readily available to him. His two-person marketing team is stretched to the max. So he does his best with what he has.

Dave is fictitious. But anyone who has put together a marketing plan for a financial institution likely has, at one time or another, felt Dave's pain.

Although there are many components to the account holder lifecycle, analytics plays a vital role during three primary phases: acquisition, onboarding and cross-sell. Here are some specific ways analytics can be used to enhance effectiveness in each stage.

Financial Institution Marketers See the Need For Analytics

Dave's frustrations are apparent in the *2012 Bank and Credit Union Marketing Study* conducted by *The Financial Brand*, an online publication focused on marketing issues that affect banks and credit unions. The survey asked participants an open-ended question about the single biggest marketing issue their organization faced. Respondents said they were deeply concerned about budget, profitable relationships and loan growth, as reflected by some of their replies: "Gaining a commitment to follow the marketing plan," "More profitable customers," "Increasing loan production in a soft economy," and "Segmenting, personalizing and measuring communications." Indeed, nearly 40 percent of respondents cited difficulty in measuring marketing ROI. Steve Nikitas, a senior strategist at Harland Clarke, noted "... the results of the survey underscore one of the primary challenges facing financial institution marketers today, which is the need for better measurement of marketing results during a time of constrained budgets and limited human resources."[1]

The primary challenges facing financial institution marketers today is the need for better measurement of marketing results during a time of constrained budgets and limited human resources.

It's not that marketers aren't doing any measurement or that predictive data doesn't exist. The challenge is that many marketers find it difficult, costly and time-consuming to locate the data and then analyze and assess how to use it as effectively as possible. This comes at a time when there is an ever-growing need for marketers to start thinking differently, that is, to work from a position of objective knowledge by consistently using business intelligence to plan future actions and budgets.

Embracing Analytics Requires a Shift in Thought

It's perhaps not surprising that Dave struggles with getting access to the data he needs to build an informed marketing plan — smaller financial institutions like his, with limited resources, often have more difficulty with this process than larger ones with extensive resources. Smaller banks and credit unions typically don't have in-house analytics experts who have the skills and training to analyze and interpret data, and can make marketing recommendations based on the analysis.

Clearly, bank and credit union marketers must make greater use of account holder data, but this will require a shift in how most marketers approach the gathering and analysis of such intelligence. Sandeep Kharidhi, vice president of Harland Clarke's Analytics and Business Intelligence unit, points out that financial institutions sometimes look to their advertising or direct marketing agency for data. Or they consult with a research company that can conduct qualitative research surveys to determine, for example, if and how a segment of the population has heard about that institution or how it stacks up against its competitors. They also may do a media analysis of television or radio advertising. But such organizations often are not able to provide quantitative recommendations based on actual account holder data — data that affords a far greater level of accuracy and predictive power.

When it comes to using marketing analytics, financial institutions are trying to catch up. They traditionally have focused more on the products and services they offer rather than on their account holders, and that difference in approach is reflected in the types of analytics they use, according to Emmett Cox of BBVA Compass Bank, a large regional bank headquartered in Birmingham, Alabama. With more data now available, banks are embracing this process much more quickly than anticipated. "Banking is becoming more competitive … so banks have to be much more relevant and timely, and doing that takes a lot more high-powered and data-intensive analytics."[2]

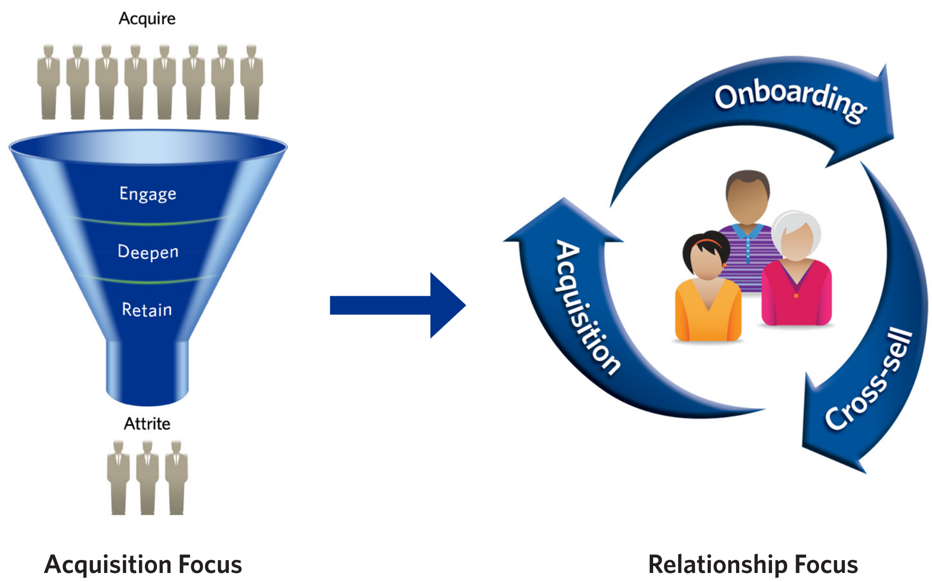
Small community banks and credit unions may lack the resources to analyze big data sets, making it more cost-efficient for them to outsource that process. David Wallace, global financial services marketing manager for SAS, notes that his company has seen "… an increase in the hosted delivery of these kinds of solutions for smaller institutions."[3] This sentiment is echoed by Forrester Research, Inc., which advises marketers to seek advice from analytical technology and service providers. It is a matter of balancing the appropriate in-house talent and technology with strategic partners such as agencies, consultants and outsourced analytics services needed to meet business objectives.[4] The bottom line is that analytics enables smaller financial institutions to expand market share, intelligently manage operations, drive down costs and gain a new competitive advantage.[5]

Leveraging Data and Analytics Across the Account Holder Lifecycle

Steve Nikitas, senior strategist at Harland Clarke, urges marketers like our friend Dave to measure marketing results on a monthly basis and to think of analytics not as simply a point in time, but as a journey that can be used throughout the entire account holder lifecycle.

Chart A

Make a Switch From Acquisition Marketing To Lifecycle Marketing



Source: Harland Clarke

For example, when considering the benefits of using predictive analytics to develop marketing campaigns to boost acquisition, it's important to recognize that acquisition is not just about the number of new account openings. It's about each new account holder's overall lifetime profitability. Analyzing current account holder data can enable marketers to see more accurately how their institution compares to industry norms and determine how to best plan for marketing acquisition programs. Two analytic techniques can increase the return of marketing efforts:

- **Segmentation programs** ensure that budget is focused efficiently on profitable prospects. It defines an institution's best account holders so marketers can target similar prospects.
- **Propensity models** identify account holders with a high propensity to purchase specific products. This helps improve the response rate to highly targeted offers.

Likewise, the impact of a conservative business environment following the global recession of 2008 and 2009 has forced many marketers to rethink an overly acquisition-heavy strategy. Nikitas believes that many financial institutions realized they were not marketing as effectively as possible. The phrase "Loyalty is the new acquisition," coined by Joseph Jaffe, a thought leader in new marketing, says a lot about keeping the right kind of account holder. Banks and credit unions began to pay more attention to retention efforts when they realized that long-term enterprise value requires not just aggressive top-line growth but equally strong bottom-line performance. As it relates to account holder retention, analytics can serve two functions:

- **Churn management** identifies and manages account holder attrition.
- **Cross-sell/upsell analysis** identifies opportunities to increase account holder revenue and profitability.[6]

Nikitas also notes the importance of conducting timely and consistent research to help support retention efforts. Customer satisfaction surveys and mystery shopping programs are important elements to any analytics strategy. These programs provide valuable, post-transactional data related to account holder satisfaction that are actionable and contribute greatly to the creation of a well rounded analytics based marketing program.

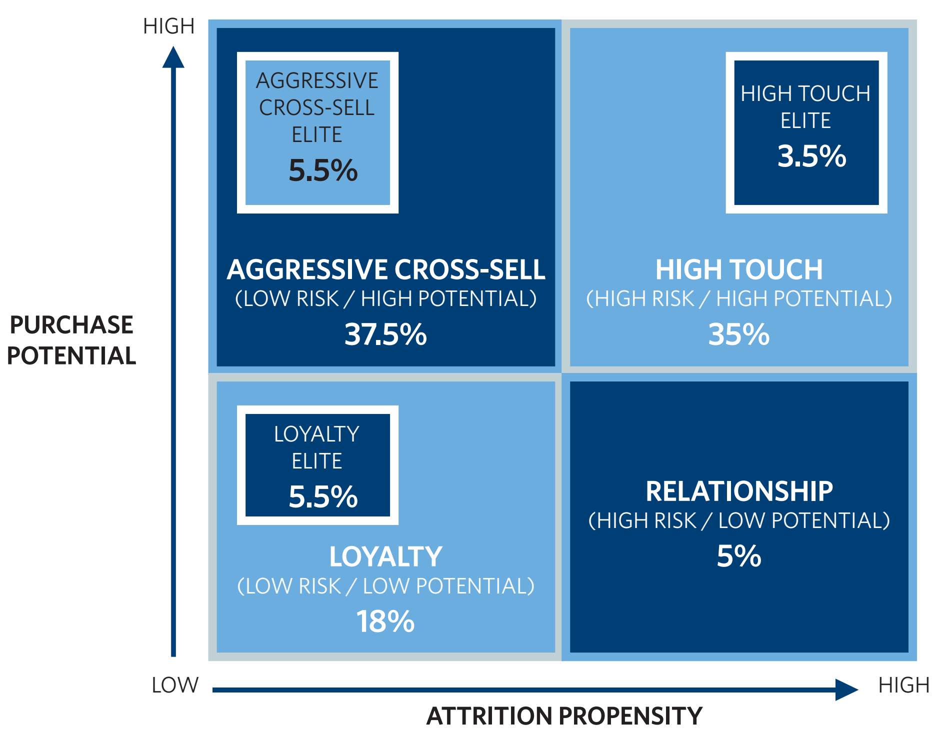
Throughout the entire account holder lifecycle, quantitative account holder data will guide marketers via a process known as "value segmentation." This process evaluates a portfolio across two key indicators: attrition and purchase propensity, which helps marketers to identify opportunities and risks. There are three predictive model categories that marketers should study before committing budget to future marketing activities:

Long-term enterprise value requires not just aggressive top-line growth but equally strong bottom-line performance.

- **Purchase potential models** help predict which account holders have the propensity to purchase a specific product. This enables marketers to target those likely to respond to particular offers instead of wasting money on those who will not.
- **Next most likely product models** help predict the next product a household has the greatest propensity to purchase, allowing marketers to send targeted messages that increase cross-sell revenue and strengthen relationships.
- **Attrition predictor models** help predict account holder propensity to diminish balances. With this information, marketers can find out who is at risk for leaving their institution and develop retention and loyalty plans to mitigate this risk.

These models are scored and then used to develop an account holder value segmentation matrix covering seven different types of account holders (see Chart B).

Chart B



Source: Harland Clarke

By properly applying this information to a marketing plan, marketers can increase the overall lifetime value of an institution's account holders, driving profitability and growth

Nikitas notes that the use of account data analytics can be supplemented with other research tools such as surveys, focus groups and mystery shopping. Developing ways to combine data from different sources can inform and validate pure data analytics, providing a holistic and comparative view. The overall objective is to better understand your account holders, the demographics of your local community and the activities of the competition. These improve your ability to assess future behavior of account holders and prospects.

Marketing has always been a combination of art and science. Successful marketers have good gut instinct and an intuitive sense of what makes people tick. But they also must have the ability to understand and apply cold, hard data. It isn't that the creative and intuitive capabilities will go away, but they must be supplemented by a new set of analytical skills. The best marketers will be those who have an intuitive and empathetic understanding of customers complemented by empirical, quantitative analyses of the behaviors customers actually exhibit and the impact of marketing activities on those behaviors. [7]

The effective use of account holder data analytics will go a long way toward helping the poor beleaguered Dave finally accomplish what he's been striving to do for years: Develop a solid, well-researched, data-driven marketing plan that supports his institution's goals and objectives.

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For more information on how Harland Clarke can help your financial institution access the right data to drive improved marketing performance, email us at contactHC@harlandclarke.com, call us at 866.609.8609 or visit harlandclarke.com.

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