NEW TOOLS HELP MARKETERS TARGET PROSPECTS

BY BRANDON LARSON AND TARYN EADIE

The struggle to acquire customers continues to be one of the biggest challenges for U.S. regional banks. Not only is the universe of prospective retail customers very small, but national players and a cadre of new competitors are increasingly competing for the same sliver of the tiny pie.

That is why the role of marketing as a driver for new purchases is becoming more important at a time when fewer prospective customers are walking into branches.

Mass-market campaigns through TV or radio are effective in reaching large numbers of people, but the problem is that more than 95% of them aren't looking for a new banking relationship. This suggests that there is an opportunity for banks to focus on those people who are most likely to switch banks.

While there is no easy fix, Novantas believes that bank marketers can make strides by identifying the best prospects for checking accounts and then specifically targeting those people.

A SMALL UNIVERSE

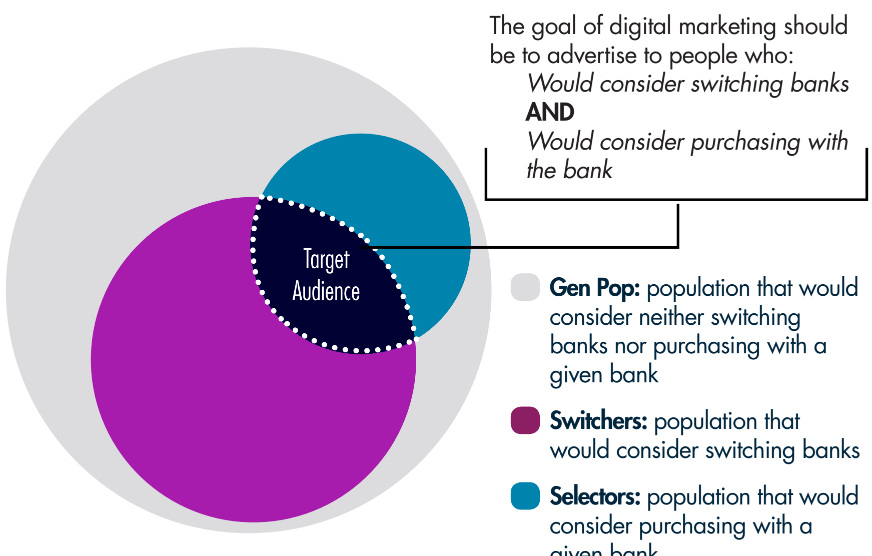
The root of the problem for customer acquisition is that few people are opening new checking accounts or switching banks. (See Figure 1.) Novantas has found that only 4-6% of the population start a new primary relationship each year — less than 1% in a given month. Of those, fewer than half will consider your bank due to a variety of factors, such as lack of branch proximity or channel preferences.

For example, even in addressable channels such as digital and direct mail, most banks broadly target the population that lives within five miles of a branch and are between ages 18 and 64. This is ineffective because that group reflects 50-70% of the population within the market and, once again, most aren't even inclined to open an account.

The result: lots of wasted money. In a typical marketing budget, less than 10% is being spent on people who may switch their banking relationship. (See Figure 2.)

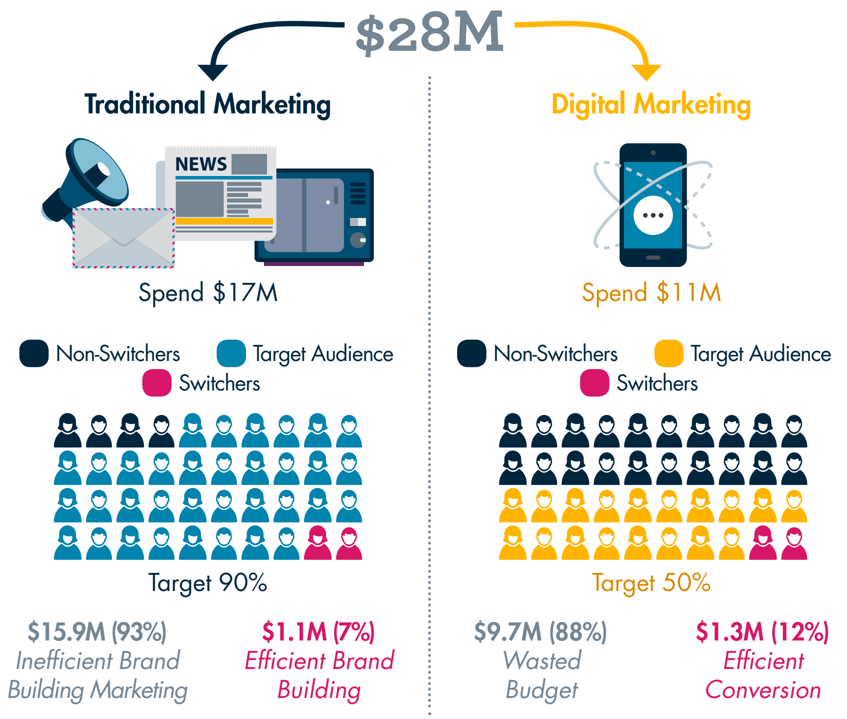
The good news is that digital marketing enables banks to target prospective customers at the individual customer level, even advertising to specific

FIGURE 1: FINDING PROSPECTIVE CHECKING-ACCOUNT CUSTOMERS CAN BE A NEEDLE IN A HAYSTACK



Note: Advertising populations are not to scale
Source: Novantas research

FIGURE 2: INEFFICIENT TARGETING LEADS TO BUDGET WASTE



Source: Novantas research

devices instead of just a broad audience.

The challenge, then, is to determine which consumers are worth the effort.

IDENTIFYING CUSTOMERS IN MOTION

When determining who marketers should target, a key factor is the likelihood that a customer will open a new banking relationship. As such, indicators of that likelihood must be found.

Age has long been a key indicator of churn, with younger segments opening new primary bank accounts at a higher rate than older segments. This difference can be significant, with Novantas research showing that those over 55 have a switch rate below 3%, while the 20-24 age bracket has a switch rate above 10%. This is intuitive: many young purchasers are shopping for their first bank account upon starting college or a first job, whereas older people are likely to have more well-established relationships that are difficult to move.

Market and bank disruptions can also drive people to change banking relationships. Novantas analysis shows that customers who visit a branch that is slated to be shuttered have almost 50% higher attrition versus business-as-usual rates. Novantas has also determined that mergers and acquisitions cause 10% incremental attrition among affected bank customers.

Moreover, the competitiveness of a market also increases churn — the more competition, the more switching behavior.

Finally, major life events clearly influence account opening. Moving (especially to a region with different banks), starting school, changing jobs, getting married, starting a family and other big changes can inspire shopping. When someone's circumstances change, the bank that is best suited to meet those new needs may prompt people to take the step of switching.

ACHIEVING CONSIDERATION

Branch share, ATM share, marketing share of voice, direct mail volume and brand distinctiveness are all drivers of consideration and purchase. Although the impact of branch share has declined in recent years, it remains the most influential lever on purchase rate.

While marketers may think it's common sense to target prospective customers whose homes are near a branch, Novantas analysis indicates that home-branch proximity is less important to purchase decisions than overall branch access. People aren't anchored to their homes: we work, shop and go to restaurants across multiple locations and neighborhoods. As a result, understanding which banks are convenient at a holistic, life-path level is a better indicator of convenience than physical proximity. Additionally, digital convenience and proposition are also increasingly critical elements for customers.

SCORING PROSPECTS

Many banks have rolled out sophisticated optimization tools like multi-touch attribution (MTA) and marketing mix modeling (MMM) to optimize creative (ad content) and publishers (where the ad is displayed). Very little work has been done, however, on refining the target audience.

Scoring for existing customers can help determine who should receive rate promotions. (See *Using Analytics to Identify Valuable Customer Deposits,* p 18.) Scoring prospective customers can help target prospect marketing. Such scoring capabilities are still in the early stages of development, but hold great promise for the digital future.

With customer-level data becoming increasingly available and models becoming increasingly granular, now is the time to use digital marketing to its full potential by identifying the right people for advertisement.

Strategies that prioritize digital targeting of specific audiences can double or triple market effectiveness, significantly increasing acquisition. At the same time, they also reduce the cost of existing marketing campaigns.

Such actions can provide marketers with another valuable arrow in their quiver as they come under pressure to demonstrate their value to senior management.

Brandon Larson
Managing Director, New York
blarson@novantas.com

Taryn Eadie
Manager, Toronto
teadie@novantas.com