

Marketing Minutes

VOLUME 3 ISSUE 4

Single-Service Customer Study

More than 50% of bank customers have the demand for an additional product now, with almost half of that group having the demand for two or more products. This data, with marketing implications for all financial institutions, was uncovered in a landmark study just completed by WordCom and Customer Intelligence Corporation.

“The study has tremendous implications on several different fronts,” according to George Wachtel, Chairman of WordCom. “The results show that financial institutions can achieve exponential growth by combining the power of focused marketing efforts with a lowered attrition rate.”

“Furthermore,” Wachtel continued, “the wealth of data analyzed allowed modeling for multi-service customers, as well as the targeted single-service customers. Tools were developed which allow financial institutions to quantify specific customer data and to tap into this huge undeveloped potential with mathematical precision.”

The Results of the Study

As might be expected, the study showed multi-service households have the greatest likelihood of purchasing

additional products in the near future. Single-service have the second highest likelihood and totally free checking households are the least likely. As a whole, for all participating banks’ multi-service group, slightly more than 50% have the demand for an additional product now, with almost half of that group (25% of the total population) having the demand for two or more products at the current time.

Within the single-service population, *one third* of those households have the demand for another product at the moment, with a little less than half of those (15% of the total base) having the propensity for two or more products. At the time of the study, only 1 in 10 totally free checking households had

Deposit Drain

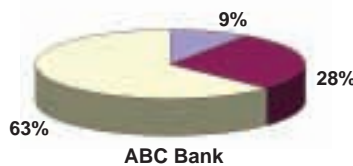
Loss of accounts (attrition) was also measured, and was found to be a factor limiting banks’ overall growth potential. For every 10 accounts opened by existing customers, 21 accounts were closed (for a net loss of 4.55%) and for every \$10 increase into existing deposit accounts, \$11.09 was lost from other existing deposit accounts (for a net loss of 1.44%).

When a “targeted marketing lift” is combined with a reduction in attrition risk, the results are magnified even further. “Any time you have attrition risk – even if you’re ahead of the industry – you have to deal with that,” says Dr. Andy Daniell, founder and President of Customer Intelligence.

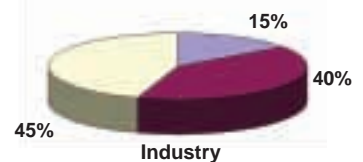
Potential Value Distribution Report – Sample

<i>Single-Service Households:</i>	<i>ABC Bank</i>	<i>Industry</i>
High Potential Households as % of Total Retail	9%	15%
Medium Potential Households as % of Total Retail	28%	40%
Low Potential Households as % of Total Retail	63%	45%

Potential Value Distribution



Potential Value Distribution



the demand for an additional product, with less than 3% interested in multiple new products.

“Clearly, there is much uncovered potential,” said Chris Wachtel, President of WordCom, “particularly in the multi-service households. The demand for additional products is strongest in the segment of this population currently holding two to three services at a particular financial institution.”

“If you went up 2% overall last year, but you had a net loss from your existing customers, you need to change that. In going up that 2%, you may have actually gone up 12% with new people opening new services, but down 10% through attrition. If you can stop the drain you’re experiencing via attrition, and cross-sell your products at the same time, the gains will be significant and long-lasting,” the research modeler points out.

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Single-Service Customer Study

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Why These Tools Were Developed

“Today’s consumers are bombarded with marketing messages,” said Chris Wachtel. “Unbelievably low loan rates are promoted in the mail and on the airwaves. And lifelong loyalty to one financial institution seems to have become a thing of the past.”

Within this competitive atmosphere, financial marketing professionals face the dual challenge of creating new sales opportunities and mitigating the risk of attrition.

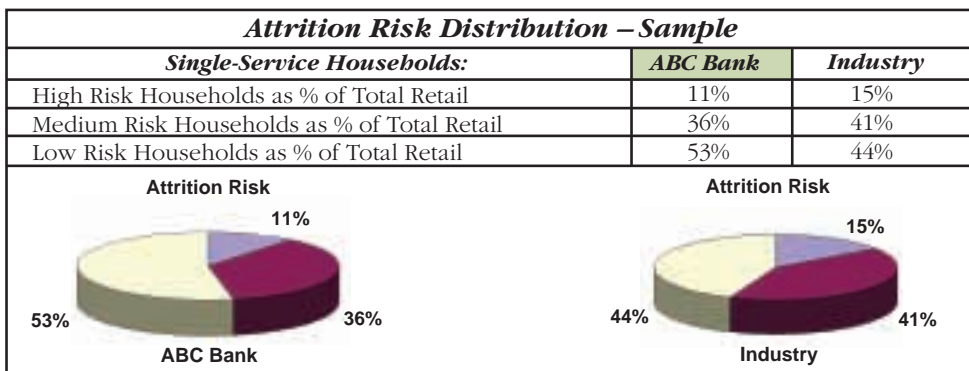
In the past, overcoming these challenges involved intuition, guesswork and a healthy dose of frustration. In spite of ongoing

The initial impetus behind the study was to provide intelligence about single-service customers. Because, according to Dr. Daniell, “Historically, single-service cross-sell programs have been failures and statistical modeling has done little to address the problem.” But due to the scope of the project, new robust algorithms for multi-service and totally free checking households were derived as well.

The WordCom/Customer Intelligence study provides simple and direct predictions about *which* single-service customers and *which* multi-service customers will want to buy *which products* and which customers are likely to *close* the products they currently own.

Dr. Daniell is enthusiastic about the potential of the new methodology. “After analyzing millions of data points, we are now able to pinpoint smaller subpopulations that can be effectively developed in the future. We’re excited about providing practical, usable information that will make a difference not only to the banks, but to their customers as well.”

“The goal is to serve the customer through their entire life cycle,” adds Chris Wachtel. “This is accomplished both by meeting their current needs and by being there for them when those needs change.”



attempts to understand and predict a customer’s future actions, precise marketing efforts have been hampered by a lack of precise *forward-looking data*.

As a first step in developing a functional tool to address this important issue, WordCom partnered with Dr. Andy Daniell, of Atlanta-based Customer Intelligence Corporation.

“This ground-breaking study directly confronts this situation and holds great promise for more cost-efficient marketing across many different population groups,” according to Dr. Daniell. “We now have the capability to develop *Bank Intelligence Scores*, designed to provide each client with the ability to better understand the specific needs and future behaviors of their customers, so they can proactively meet those needs and avoid any potential negative outcomes.”

Chris Wachtel of WordCom sees a need for this kind of information in banks of all sizes. “In any financial institution, each marketing dollar is precious. It can either be used effectively, or thrown out the window. Think about it: If you’re sending a product offer to your entire customer base, but only 20% of them need that product, then 80% of those contacts were a waste. Why not narrow down your market first, and stack the odds in your favor?”

The challenge, of course, is how to go about doing this. Chris Wachtel remarks, “Too many banks assume that repetition is the key. Yes, repetition is important. But if you’re repeating yourself over and over to the wrong audience, you’re wasting your time and money.”

How The Study Was Done

In developing these models, *millions* of account-level records were pooled from all of the participating institutions. The households containing these accounts were tracked over a number of months so that changes in their account holdings and behaviors could be documented.

Dr. Daniell explains, “Static records can only tell you so much. The key to this study was in analyzing data over a period of time. That way we can pinpoint not only ‘what the customer did,’ but also ‘what were the characteristics of this particular household *prior to these account changes*.’”

The following is an outline of the development process:

- 1. Householding:** Millions of account-level records were aggregated to the household level using a proprietary algorithm.
- 2. Actions over time:** Additional data snapshots were merged in from multiple timeframes so that household behavior could be tracked over time.

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The Value of Modeling

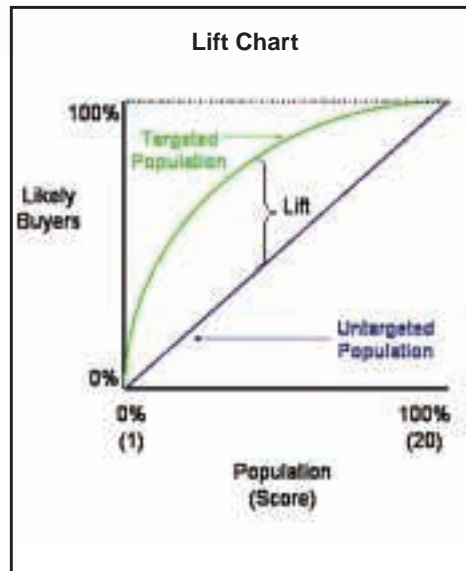
Effective marketing depends upon understanding the needs of the customer base. “Modeling customer behavior provides a way to go a step further,” says Chris Wachtel, “fine-tuning the target audience and allowing leverage to be built, usually by placing more than a majority of the likely purchasers of the product into a smaller, targeted pool.”

Chris Wachtel remarks, “Typically we are not attempting to **create** demand. We are trying to understand where the demand is, and to take advantage of that.” Selecting a more focused target group provides “lift,” as illustrated by this chart.

Practical Applications

With this base study in place, WordCom and Customer Intelligence are able to develop Bank Intelligence Scores for financial institutions across the country. “We can actually provide a predictive roadmap,” says Chris Wachtel. “And from there, we’ll help target the appropriate customers with appropriate marketing messages, at the appropriate time.”

“Let’s say a bank wants to more fully develop single-service customers. Rather than guessing what they might respond to, they can now group them



according to mathematical predictive models. So the chances of success are radically increased. And what’s really exciting is that banks can apply the same methodology to multi-service customers and totally free checking households as well.”

“Cross-sell opportunities are tremendous,” adds Dr. Daniell. “There is untapped potential in every customer base that we studied. And now, I’m happy to report, there’s a practical way to tap in.”



Dr. Andy Daniell,
Customer Intelligence Corporation

Andy Daniell, Ph.D., designer of this study, has more than ten years of experience in the analytical field with financial services and direct marketing companies. Dr. Daniell holds B.S., M.A. and Ph.D. degrees in economics and is a published author.

“Andy has a remarkable intellect and, given his work with Wachovia and BankOne, has a solid background in the financial industry,” says George Wachtel. “His expertise certainly plays a vital role in the success of our mutual endeavors, and we are honored to have him as a partner.”

How The Study Was Done

(Continued from page 2)

- 3. Three groups:** Unique comparative analytics were employed to contrast the behavior of totally free checking households from single-service households from multi-service households.
- 4. Behaviors compared:** The learning from the contrasted behavior profiles was used to determine what statistical methods to employ for each of the segments.
- 5. Correlations:** Behaviors were analyzed using the optimal method by segment to uncover the correlations between customer characteristics and subsequent behaviors.
- 6. Behaviors forecasted:** The ability to forecast the behaviors in question were validated and the forecasting or predictive algorithms documented and coded.

According to Dr. Daniell, the results can now be extrapolated relatively easily. “The beauty of this study is that the work has now been done. The formulas are in place, which means tools are available that in the past would have been accessible only by large financial institutions with limitless budgets. We can plug in data points and provide specific results to help anyone, anywhere, come up with actionable marketing predictions.”

With years of experience in the financial industry, Dr. Daniell recognizes the impact this study will have on smaller institutions. “One of the issues, if you’re not a large financial institution, is that you generally don’t have the quantity of data to build these models for your database. By pooling data from multiple institutions, we have laid the groundwork. So we can now build a profile for a given set of households, follow them over time, and correlate their current situation with how their behavior is likely to change in the future.”

The Mailing Calendar

As they say, timing is everything. Even if a customer is statistically likely to respond to a Skip-A-Pay offer, for example, they may have the greatest need for this product in the fall when holiday expenses begin adding up. By the same token, an IRA campaign will be most effective in early spring, shortly before the April 15th deadline.



A yearly mailing calendar capitalizes on the seasonal demand for products, including:

- Home equity products
- Checking accounts
- IRAs
- Money market accounts
- Investments
- Skip-A-Pay offers
- New account activation

“Following such a calendar helps ensure complete product coverage and eliminates the need to ‘reinvent the wheel’ each year,” says Chris Wachtel. “Combined with *Bank Intelligence Scores*, the annual mailing calendar is a simple yet powerful tool for marketing success.”

Database Action Steps

Here are the key action steps to take advantage of the cross-sell opportunities within a customer database:

1. **Database review:** Have the customer file analyzed to highlight the single-service and multi-service opportunities.
2. **Data append:** Have the data appended to the customer file.
3. **Householding:** Identify individual households in each group which have the high and medium potential for cross-selling actions.
4. **Products:** Identify which products would best be sold to those households with potential.
5. **Attrition review:** Identify which households are at the *greatest risk for attrition* and which products would be best to market to each sub-group.
6. **Cross-sell ratio:** Strive for a bank-wide cross-sell ratio over 2.0.
7. **Pricing:** Consider product packages and pricing to encourage additional service sales.
8. **Personal sales campaign:** Mobilize and motivate personnel to sell and cross-sell the needed products.
9. **Direct mail:** Develop a yearlong calendar of regularly scheduled mailings.

More Information

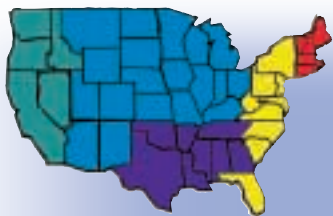
The tools developed in this ground-breaking study are now available to financial institutions of all sizes.

To request more information, please see the reply letter included with this newsletter, visit www.wordcom-inc.com or contact the appropriate WordCom regional Vice President.

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