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LESSONS

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ADVANCED TARGETED MARKETING

Achieving Next-Generation Customer Targeting and Response Rates

Given that studies show winning new customers costs 10 times more than simply holding onto existing ones, an aggressive letter-writing campaign to keep them feeling loved is well worth it

SINCE THE DAWN OF THE Internet age, customers have become increasingly intolerant, as Web retailers have changed forever what consumers expect and demand in terms of tailored offerings and communications. As a result, virtually every industry has rushed to market with new ways of personalizing and enhancing their relationships with customers in order to improve satisfaction and loyalty—and that includes the financial services industry.

The good news is that changing the way we relate to customers, especially in our marketing messages, can deliver significant profitable returns to financial institutions. By mining intelligence about customers' habits, history and preferences, institutions are able to tailor product and service offerings, delivering the right messages to the right customers at the right time.

GOING VIRTUAL

The result is increased response rates and reduced costs, which can boost the bottom line, analysts say. "The impact of better response rates is huge," according to Forrester Research. "Even small increases in response and buy rates radically improve the bottom line." Not only do tailored offerings deliver bottom-line results, but they also help lower customer acquisition costs, as mass mailings are replaced by targeted direct mail, telemarketing and Internet promotions. Cost savings mount, with estimates indicating that even a quarter-percent rise in response rates can reduce customer acquisition costs by 47 percent.

How do financial institutions realize this kind of return? The devil is in the data, so to speak. While some institutions still deliver customer promotions with zero intelligence—sometimes based on the day of the week (Mondays and Tuesdays are mortgage loans, and so on) others are leveraging customer information derived through sophisticated data mining techniques in order to tailor their marketing efforts and increase response rates.

Rochester, NY-based ESL Federal Credit Union is one such institution. A credit union serving Eastman Kodak employees and their families, ESL represents $1.8 billion in assets and has 165,000 members, making it one of the largest credit unions nationally. A full-service credit union, ESL was facing a problem familiar to many financial institutions—the ability to accurately identify likely prospects for product sales. "The secret is in figuring out who has the highest propensity to purchase which product," explains Roger Rassman, vp and marketing manager. "Once you have that intelligence, suddenly you no longer have to bear the expense of communicating with your entire customer base all the time—you can target your offerings to people who are in the market for the product and who will likely qualify."

With the help of eFinance partner Digital Insight, ESL set out to uncover detailed customer information by applying advanced targeted marketing (ATM) techniques in January of this year. The ATM project consisted of collecting and massaging data that consisted of more than 1,000 attributes per household. In modeling that data, ESL's portfolio was scored at the household level and the entities were rank ordered into twenty segments—or "twentiles"—with a segment number of 20 indicating the highest propensity to respond/purchase, and 1 indicating the lowest propensity.

The scores and the segment numbers from this model were then appended to ESL's marketing customer information file (MCIF) system, so that the organization could access and use these scores and segments in their targeted marketing efforts. "We use the scores in a number of ways to improve our direct mail and telemarketing programs for auto loans, home equity loans, and Internet banking," Rassman says. "With 90,000 households, it would be costly to mail to all our customers. By targeting our marketing efforts, we have lowered costs, eliminated waste and increased our response rate, making the entire program more profitable."

ESL didn't stop with leveraging customer data across traditional marketing campaigns. They also employed the results of propensity modeling into their Internet channel, speeding and streamlining the loan application and approval process and improving the on-line customer experience for their more than 23,000 Internet banking users. "Once a member logs on to our Internet banking site (www.esl.org), we know who they are," Rassman explains. "We know what products they do and don't have with us, and because of our advanced targeted marketing efforts, we know their propensity to purchase an auto loan or a home equity loan. With this information, we can flash tailored offerings on certain Web pages that say, for example, 'Get Your Home Equity Loan at a Special 8.98 percent Rate.' All the customer has to do is click on the ad and apply instantly. This gives us a slick targeted delivery system, with approvals in about 30 seconds."

According to Rassman, targeting Internet offerings is what Internet banking customers now expect, and what financial institutions must begin to provide in order to keep pace with customer demands.

"It's a much less laborious process from a customer or member standpoint," he says. "They enter their information and find out in seconds if they are approved, which means they have peace of mind when negotiating their auto deal. And because of the propensity modeling, we know from the start whether or not a customer is high propensity—whether or not they are likely to buy, are credit worthy, and so on—which allows us to close the loan deal within hours, not the days it used to take. We are currently averaging about 400-500 loan applications a month this way."

Prior to implementing propensity models, ESL used its MCIF system to define a target audience based on age, income, psychographic coding and about 20 other customer-specific data elements. In April 2000, this less sophisticated method gave way to the new approach—using more intricate propensity models based on some 1,100 data elements per household—and ESL's marketing response rates increased dramatically.

"We are currently getting a lift in response rates of approximately 50 percent from our high propensity households," Rassman explains. This means if the mailing as a whole draws a four-percent response, in our high propensity households—twentiles 17-19—the response rate will be six percent. "A 50-percent lift in response rates is significant for us," Rassman continues. "Apply that into a 20,000 piece mailing. A four-percent response rate is 800, while a six-percent response rate is 1,200—that's significant in terms of loan applications and the acquisition of Internet banking customers."

MODELING METHODOLOGY

Results notwithstanding, financial institutions should not wake up tomorrow and decide "What we need are statistical models!" There is some background work to complete, and some essential steps and processes that must be followed in order to ensure the kind of success ESL and others have realized.

■ Step One: Define Business Objectives. The first step is to be clear on what you are trying to accomplish. Are you trying to build profitability? Market share? What are you after? Remember that Business Objectives are an end; everything else is a means to that end.

■ Step Two: Develop a Strategy. Once your objectives are defined, you should develop a supporting strategy to move you toward your objectives. A sound strategy is a plan of attack on your business objectives and should be supported by intelligence.

■ Step Three: Build Intelligence. Intelligence building enables financial institutions to cater to the needs of their customers better. Data mining, segmentation and channel determination are part of the intelligence-building step. They answer the question, which customers and which segments are best suited to which product offerings? Data mining offers a unique edge in assessing individual customer needs and wants. What you do with this edge depends on how well you execute.

■ Step Four: Execute. Just because an organization invests in and builds a sound strategy, and just because it has deployed one of the most sophisticated data mining systems, that doesn't mean it will succeed. You must execute with excellence. If you do not communicate appropriately, and at the right time, with your customers—taking into account all of the parameters you've defined—you won't succeed.

By following these steps, financial institutions can dramatically reduce acquisition costs. Now, instead of mailing to 100,000 customers, targeted offerings can be sent to 30,000 customers and with the same number of responses generated. Measurable results in terms of cost reductions and increased responses are the byproduct. But the ATM approach also offers intangible benefits that should not be underestimated—benefits that truly drive customer satisfaction.

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