

How can you better identify, target and cultivate additional relationships with your most profitable customers?

By Bill Hasapidis

It is a simple fact that community banks today need to know their customers, both current and targeted, to increase revenue and stay competitive. Timely access to the right information through the use of Marketing Customer Information File (MCIF) systems can become the basis for this strategy. This article presents a simple, yet effective framework for implementing and utilizing this powerful technology.

The consolidation of the financial services industry during the past decade has created abundant opportunities for community banks. Many have taken advantage of these opportunities by attracting customers who feel that their needs are not being adequately served by the larger, less responsive financial “superstores”. At the same time, however, this change has significantly increased the competitive pressure facing community banks as the larger institutions have aggressively courted their customers with promises of “one stop shopping” and greater levels of convenience through a vast range of products and services.

However, a precursor to developing these strategies is the ability of the bank to analyze its customers, markets and products to better understand its strengths and weaknesses and to develop strategies that offer the most potential for profitable growth. Community banks have always had a powerful advantage through their understanding of their local communities and the relationships they have established with individuals and businesses in these communities. This sometimes leads to a false perception, though, that bankers intuitively know **who** their best customers are and **where** the best opportunities are.

Unless this practical knowledge base is coupled with the technical database that contains all of the business information needed to analyze customer behavior and support strategic decision-making, management is only seeing part of the picture.

But how does management gain this insight? What sort of information do they need to be looking at? What should they be analyzing and how? What do they do with all of this information once they have collected it and generated the analyses and reports? Those community banks that have been successful at leveling the playing field against the larger banks recognize the importance of utilizing MCIF technology as a means towards finding the answers to these questions.

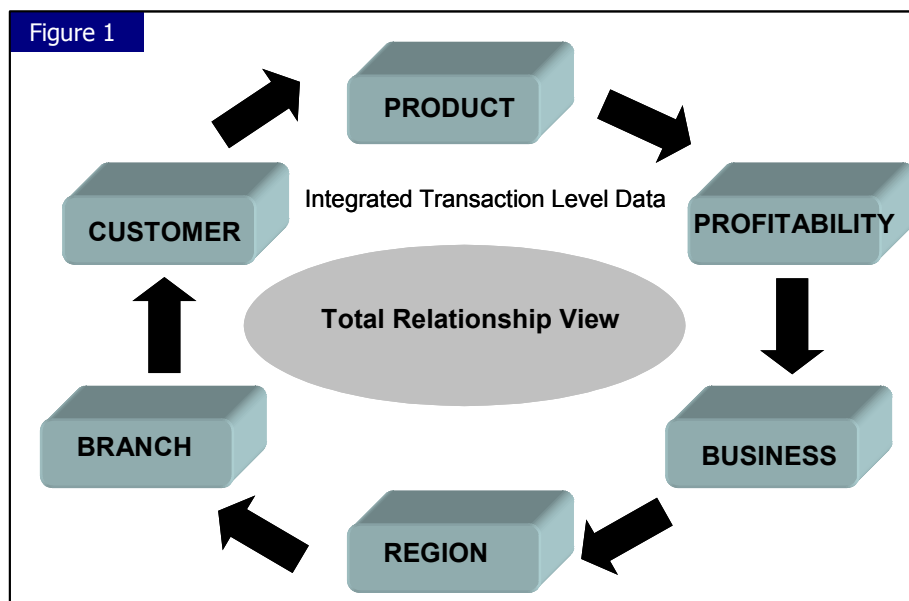
Regardless of where a community bank is today in terms of an MCIF strategy, they need to be thinking about the next steps that must be taken to facilitate the program. The development and implementation of an effective MCIF strategy should follow three phases: 1) development of a strategic information warehouse; 2) development of a management analysis and reporting

framework; and 3) utilization of the outputs from this framework to develop cost-effective, targeted marketing strategies.

Step 1: Building the Strategic Information Warehouse

Today's data warehouses have evolved out of the mainframe transactional and operational databases of the 70's and 80's. These databases were designed primarily for the fast and efficient transaction processing required by branch staff and service representatives, and often provided only very basic output in the form of standardized reports. Strategic decision-makers, however, need ready access to current data that may be sourced from a number of systems and they need to view and analyze this data in a variety of ways. The data warehouse evolved as a means for resolving these competing demands. It offered a single repository to store key information that could be accessed easily and rapidly by analysts, marketing strategists and senior management.

For many community banks, the prospect of building a data warehouse and using information as a strategic tool to improve profitability is attractive yet intimidating. However, newer and more affordable technologies have emerged to give community banks unprecedented access to data. Increasingly sophisticated MCIF systems are emerging



that allow enormous amounts of data stored in a relational data warehouse to be transformed into meaningful business information. These systems provide tools that allow decision makers to select, format, map, sort, merge, summarize and analyze the information to support dynamic decision-making.

To become a strategic marketing (and management) tool, the data warehouse must provide access to key business data in the following areas: 1) customer demographics; 2) Geographic information; 3) Customer relationship id's that aggregate accounts into a total "household unit"; 4) inputs to profitability models; and 5) peer performance data. The objective is to assemble data from the lowest common denominator for every point of contact with a customer and to

understand the cost/benefit relationship associated with each contact. This is depicted in Figure 1.

Step 2: Analyzing the Data

Unless you have the right analytics and processes supporting the data, a data warehouse is really just a 21st century version of the mainframe systems of the 70s and 80s: an expensive database with some ad-hoc reporting tools that delivers information of marginal value to key decision-makers. Collecting the data is only the first step. Asking the right questions, analyzing the data and interpreting the results are the bigger challenges.

An illustrative framework for use as a general guide for MCIF analysis and reporting is shown in Figure 2.

Figure 2		Customer Segmentation	Product Segmentation	Geographic Segmentation	Value Segmentation
ISSUE	<ul style="list-style-type: none"> Understand the demographic profile of your customer base. Align customers with the best delivery channel. Develop information-based customer acquisition strategies 	<ul style="list-style-type: none"> Understand product and service usage Gain insight into product purchase behavior. Develop information-based bundling & pricing strategies. 	<ul style="list-style-type: none"> Increase the effectiveness of the branch infrastructure. Customize product attributes to the needs of unique areas. Identify high potential market areas. 	<ul style="list-style-type: none"> Identify and profile high value customers. Evaluate household service mix and penetration. Create segment-specific marketing strategies. 	
ANALYSIS	<ol style="list-style-type: none"> Demographic segmentation Household service mix Household gains & losses trend analysis 	<ol style="list-style-type: none"> Product usage history Cross-sell matrix Product purchase order Predictive modeling 	<ol style="list-style-type: none"> Concentration by branch, region or market Market penetration Customer proximity to branch network Market potential (prospects) 	<ol style="list-style-type: none"> HH profit stratification Break-even analysis Profit opportunity analysis What-if / simulation modeling 	

By providing access to the right information, the MCIF enables management to synthesize input from multiple perspectives and provide answers to these questions in the form of analyses and reports.

It is important, however, that the MCIF analyses and reports provide more than just a marketing perspective. While the marketing director needs to understand customer needs, household buying power, market share and the competition in order to retain the best customers and attract similar prospects, the senior lending officer and the chief financial officer need to look at the economic impact of new and existing business on net margin, cost infrastructure and loss reserves.

Only when you introduce key elements from other functional areas into the analysis and reporting framework can you begin to see the “true” value of any customer relationship. The

MCIF data matrix integrates marketing information with financial and credit information to complete the “value” equation and bring the entire customer relationship into focus. The MCIF systems in use at the larger commercial banks have been evolving towards this “cross-functional synergy” for some time and this same capability is now available in a platform that is manageable and affordable to community banks (Figure 3).

With warehoused data and decision-support tools, management can generate queries on demand, utilizing a variety of “what-if” scenarios by

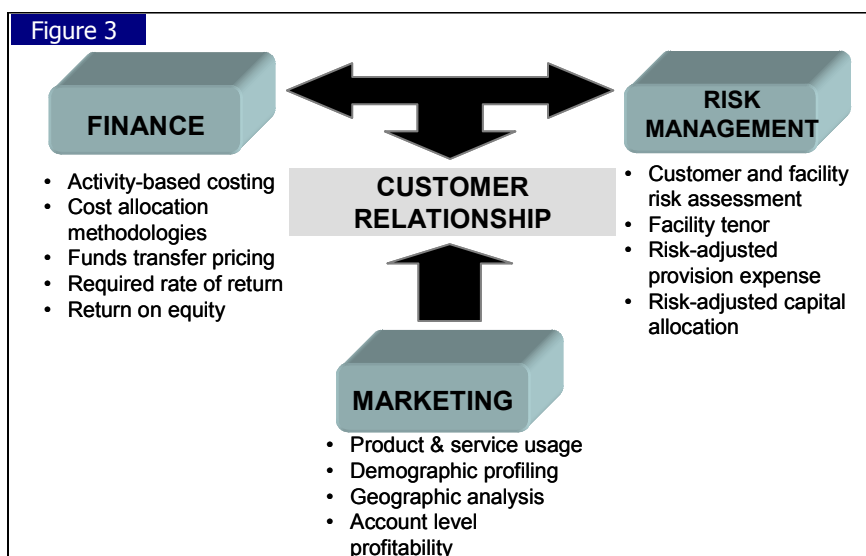
drilling down through hierarchical layers of related data to get answers to complex business problems. Since the data contained in the warehouse is tied to performance metrics (e.g. customer and household profitability, product and service usage, etc.) it provides powerful insight into the business.

With the right information, management is able to analyze current performance, identify emerging trends and anticipate competitor actions. Sophisticated mapping tools let management see where customers are in relation to branch offices and what market areas offer the most potential for developing new business. By using analyses that examine product and service usage over time, analysts can develop behavioral models that “predict” the likelihood of a particular customer to purchase a particular product.

These easy-to-use decision-support tools provide extensive access to information. Bank staff with a broad range of technical skills and experience – financial analysts, branch and sales managers, marketing managers, even executive management – can request information from which they can quickly compile reports and spreadsheets. Timely access to current information enables managers to analyze and model the realities of today’s markets to improve performance and maintain a competitive advantage.

Step 3: Utilizing the Data

The final step in the MCIF strategic framework involves turning the outputs from the analysis of the data into cost-effective, targeted marketing strategies. Every household has a finite level of “investable assets” and two challenges community banks face are identifying which customers are most profitable and developing the programs to attract a greater share of those customer’s



assets as well as non-customers with similar demographics. Too many banks spend time and money either chasing after the wrong customer dollars or chasing dollars that aren't there.

The insights gained through the MCIF analyses can be used to create demographic profiles of specific target groups, tailor marketing strategies to products and services aimed at those groups and select the best media for gaining the broadest audience exposure. For example, the bank can create a direct mail campaign aimed at increasing usage of its on-line bill-pay service among customers with small business loans and deposit accounts that show a high volume of monthly checking activity. Not only can this provide a greater level of convenience to the customer but it can actually lower the banks cost to serve that customer, resulting in a net increase in customer profitability.

Today's MCIF systems also contain tools that allow the bank to establish the parameters, costs and objectives of a marketing program and then track the results over time. Not only can they perform the back-end analysis to measure the response rate of the campaign in terms of new customers and increased sales of a particular product or service, but they also provide an on-going linkage to the profitability models that enable the bank to measure the value created (or destroyed) by these customer relationships. Relationships that increase value must be nurtured and grown. Those that destroy value must be moved out, re-priced or re-structured accordingly.

Knowledge is Power

The financial services industry has long recognized the power of information in understanding and expanding customer relationships. Community banks are well aware that the large banks and brokerage houses will continue to go after their best customers. They must respond to these challenges by using the technology that will help them retain their best customers, expand service usage and attract high-value prospects. With current information, decision makers can maintain an up-to-date snapshot of customer relationships and use this information to maximize their return on marketing dollars.

With the number of MCIF solutions available to community banks today, those who aren't using this technology, because they think it's either too complex or too costly, need to take a hard second look. With the right approach, the solution might be as simple as 1, 2, 3.

About the Author

Bill Hasapidis is founder and President of BancTRAC Solutions, Inc., a provider of advanced software tools and consulting services in the areas of customer value analysis, marketing performance measurement and credit risk management. He was previously Director of Customer Analytic Products at PCi Services in Boston and a Director in the Management Consulting Services practice of Price Waterhouse. He can be reached at 508-359-9606 or billh@banctracsolutions.com.