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Case Study: creating the optimal network for the affluent consumer

A top-50 US bank serving a major metropolitan area asked Bancography to help develop a strategy for delivering wealth management services through its existing retail branch network. The bank enjoys a leading market position and serves a broad retail client base through an extensive branch network. It recently introduced mutual funds, online trading, and managed brokerage offerings, and needed to learn which markets offered the best potential for these products and services.

The project presented several challenges beyond those found in a typical retail branch optimization effort. For example, unlike with bank deposits, where the FDIC reports holdings by competitor, there are no publicly available sources of securities holdings. Additionally, interviews with the bank's management revealed a belief that securities relationships are more difficult to steal from competitors than banking relationships, a view confirmed by secondary research.

The optimization effort included four major steps. First, Bancography constructed a model to estimate securities holdings by market segment. The model was built using the bank's MCIF data, supplemented by secondary sources. Households were grouped into clusters based on demographic variables such as age, length of residence, and asset level. The model yielded the typical portfolio composition, divided by bank deposits, securities, mutual funds, and annuities for each segment. *continued on page 2*

Market Awareness & Competitor Research MA&CR

The MA&CR provides the fundamental information needed to compete in today's increasingly fragmented financial market. This is the most important marketing research that an institution can conduct because it measures the following:

- Primary household and account share
- Brand awareness
- Customer loyalty
- Perceived service quality
- Product value for both traditional and alternative products.

While some banks conduct research on any one or two of these attributes, only this omni-study captures the full array of marketing data that is essential to strategic planning.

Methods: Bancography will conduct 400 random interviews per metropolitan area in your markets. The surveys are masked and last less than 9 minutes. The findings have a shelf life from 1 to 2 years depending on the area's growth rate and evolving competitive landscape.

continued on page 2

Today's Challenges, A Banker's View

Many clients and peers often inquire about the challenges that commercial banks are faced with today. In examining conference agendas, client and prospect inquiries, client interviews, and current events in industry magazines and newspapers, the following themes recur as relevant issues taxing financial institutions today:

1. There is a renewed emphasis on the physical network. Commercial banks invested minimally in their networks during the past 5 years due to zealous expansions of Internet banking and brokerage platforms. With the realization that the Internet is a complementary service rather than a substitute channel for bricks and mortar, capital is being redeployed to these aged and neglected networks.

2. Business banking and commercial lines of businesses have historically been underrepresented in marketing dollars and talent and an afterthought in branch/site selection. Now that institutions have documented the high crossover between business owners and affluent consumers, the marketing and network emphasis on these lines of business is increasing.

3. The private banking and investment/securities customer base is growing across the nation due to the late 90's bull market and the absolute number of retirees. Coupled with this phenomenon are high profit margins that are attracting new entrants daily, resulting in further industry fragmentation. Corporate management teams are quickly reacting to this market's needs via capital and human investments in targeted marketing (segmentation), sales training, packaged offerings, and delivery strategy (both physical and virtual).

4. Within a bank, internal referrals or cross-sell to the more profitable commercial and wealth lines of business (up-sell) are gaining vigor. Household retention also remains a relevant issue.

5. Another challenge for banks concerns incentive systems (sales goals and scorecards) for all lines of business. Accountability is becoming crucial as institutions embrace sales cultures with an emphasis on improving customer satisfaction and loyalty, controlling attrition, and increasing cross-sell.

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Next, we reviewed trade areas to determine the optimal spacing for branches that distribute wealth management products. By measuring the distance from a customer's residence to the branch at which they opened their investment account, we learned that wealth trade areas are broader than retail banking trade areas. In this market, consumers opened checking accounts within 2-3 miles of their home address but were willing to drive over 5 miles for mutual funds and over 10 miles for trust and investment accounts. Thus, the bank could serve the wealth management market from a subset of its retail locations. Submarket boundaries for each potential site were drawn, reflecting these broader trade areas.

Combining the demand model from the first step with the trade areas defined in the second step yielded aggregate demand by submarket for each wealth management product. In the final step, Bancography developed a model to forecast what share of demand in each submarket the bank could reasonably expect to attain. Because of the bank's strong retail share and the aforementioned difficulty of stealing wealth management customers, the model was predicated on an assumption of high cross-sell to existing households, but only limited acquisition of new households. The model was used to predict balances for each product line; the balances were then coupled with a financial model that impounded service costs, yielding a market ranking based on consistent, quantitative factors.

Like most banks, this institution captures only limited wallet share even from its best clients due to the recency of its wealth management product offerings; thus, the strategy of cross-sell first, acquire second will prove fruitful for some time. Accordingly, the project recommended deployment of wealth management officers mostly in markets where the bank maintains a broad base of affluent retail clients but where it has not yet sold a high volume of securities products. The optimization exercise provided a blueprint against which the bank could determine which existing markets held the greatest potential for cross-selling wealth management services. It also carried the added benefit of measuring for the first time the bank's securities market share and its wallet share by market area and by customer segment.

MARKET AWARENESS & COMPETITOR RESEARCH (MA&CR)

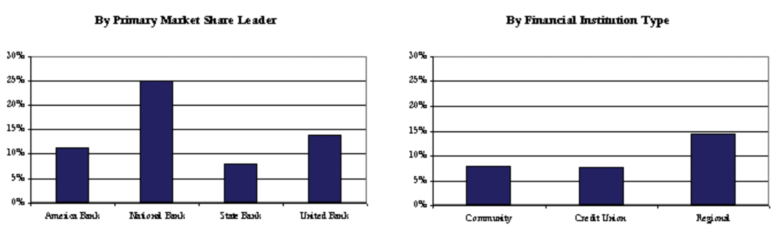
CONTINUED FROM PAGE 1

Results: All data is examined by demographic segment, by bank for share leaders, and by institution type i.e: community bank, credit union, or regional bank. For the analysis by bank type, Bancography defines a regional bank as one that operates with a multitude of branches across state lines, under one brand. If your institution is not a share leader in one of your markets, we suggest an over-sample from your customer base so that your results can be comparatively analyzed.

Bancography has conducted this study across numerous markets and has noticed some commonalities in consumer perception. As part of the reporting, Bancography will compare your results to our database of collected information from recently conducted MA&CR studies.

The following chart shows consumers in this particular market who experienced a problem or error in the last 3 months. The names of the share leaders in this metro have been changed, but the data is actual.

Experienced a Problem or Error in the Last 3 Months



The MA&CR costs about $14,000 per metropolitan area, with an optional over-sample available for $1,500. For more information and detailed pricing for Bancography to conduct the MA&CR for your institution, please call 205.251.6227.

Market Segmentation

What it is, how to get started, what it can teach you

Segmentation has long been a buzzword in bank marketing departments, with institutions of all sizes vowing to implement a segment-based approach to product management and marketing activities. But, few banks actually use such tactics, and many remain unable to define concrete objectives for their segmentation schemes.

how to get started

First, a simple definition: "Market segmentation is the process of grouping consumers (or businesses) with common observable traits that predict common, distinct behavior."

These observable traits may be demographic, such as age; product related, such as checking account ownership; or behavioral, such as ATM use. Although customers can be grouped by these traits in a descriptive segmentation scheme, the scheme carries little use unless the groups allow predictive segmentation; for example, customers over age 65 that own CD's and write over 20 checks per month comprise a homogenous group in that they share common traits.

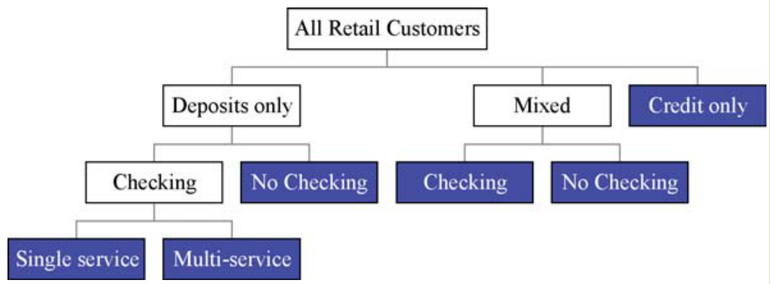
what it can teach

But, to form a viable segment, the group must also share common additional behaviors, such as demand for checking accounts or a tendency to respond to telephone offers or a preference for drive-in banking; furthermore, the members of the group must behave differently than non-members, else there is little value in describing them as a segment. In defining segments, strive to maximize the similarity of the consumers within each segment and maximize the differences between consumers in different segments.

The following variables have proved predictive in consumer segmentation analyses that we've conducted for our clients; business analyses require different variables:

Demographic – there are five primary variables that, in various combinations, describe and differentiate virtually all consumer households. Age, income, length of residence, presence of children, and homeownership represent most attributes of a consumer's life stage. Almost all behavioral differences are captured within one of these variables, and most other demographic variables are correlated with one of these. A bank seeking to append data to its MCIF can save money and simplify its analytics by appending only these variables.

Product use – Customer relationship can be classified in as many groups as there are products, but most can be described quite succinctly. In the framework below, customers are classified into one of six terminal segments that describe their relationship with the bank. The framework leads to easy conclusions as to what to cross-sell to each customer segment.



Behavioral – Primarily to describe checking relationships, variables such as check, ATM, and online transaction counts. Account velocity, most recent purchase, and tenure can provide valuable means of grouping consumers.

Once segments are drawn, a bank can create specific cross-sell, marketing, or channel promotions targeted to each segment. For example:

what it is

A bank may observe that a high pro-portion of its check card users are younger. It could then segment households in a simple matrix of age x check volume and promote debit cards to its younger households that are high check writers but have not yet embraced debit card use.

Or, a bank could cross-tab the product use segments diagrammed above against demographics and design appropriate statement stuffers and cross-sell campaigns. Segmentation schemes can also drive media decisions and even branch merchandising.

Though access to customer data sources vary across institutions, every bank can obtain enough basic data to develop a segmentation scheme. Such efforts will yield benefits for all aspects of the bank's marketing plan.

WWW.BANCOGRAPHY.COM

Bancography will release **The Library**, its newest software product, in June 2002. The Library is a centralized databank of branch information. It allows a bank to store photographs and other branch information in a central database. Ideal for contact centers, branch administration, and properties departments, The Library can house: branch hours, maps, photographs, market demographics, floor plans, and other data that would otherwise reside in multiple disjointed locations.

Bancography is pleased to announce its alliance with **Financial Supermarkets Inc.** (FSI). Since 1984, FSI has been the pioneer of in-store banking. FSI works with retailers and financial institutions to develop in-store banking programs, traditional and private label, that include designing, constructing, and installing in-store financial centers. FSI continues to support its clients by providing executive planning and marketing services.

Thank you to the American Bankers Association for hosting the recent Financial Services Customer and Contact Center conferences in St. Petersburg. And, thanks to everyone who attended Bancography's presentations, and visited our booth. Attendees learned about findings from Bancography's Web Site and Call Center Benchmark Studies and from our Market Awareness and Competitive Research Study. Common topics of conversation among the bankers in attendance included: how to introduce wealth management products to the retail client base, how to combat attrition, the benefits and drawbacks of free checking, and the increasing threat from credit unions.

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