

BANCOLOGY

a quarterly journal

THE ART OF BANK PLANNING

bancography

CASE STUDY: NEXT MOST LIKELY PRODUCT MODELING

Many banks rank cross-sell as a top priority, and seek every advantage in designing more effective cross-sell models. Bancography recently completed several engagements in which it assisted clients by developing next most likely product models. These models, also known as product propensity models, identify what products a consumer is likely to purchase based on their demographics, current product use, and transaction behavior.

In one project, our client asked us to identify which customers were most likely to purchase five products that the bank emphasizes in its business plan: non-interest bearing checking, money market accounts, home equity lines, installment loans, and IRAs.

First, we took an extract file from the bank's MCIF. The extract file included all households that purchased the targeted products, and a random sample of households from across the database. The extract file contained information such as account open date, balances, transactions, and various appended demographic variables.

Next, we divided the extract file into two samples. The 'A' sample was used to build the models; the 'B' was used to verify their validity. Using the 'A' sample, we normalized the variables as needed (a statistical technique), examined all variables relative to one another, and eliminated any redundant variables. For example, income and home value are highly correlated with one another. Thus, the models only needed to consider one of the variables, because each shows a similar predictive effect.

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THE LIBRARY

Bancography is pleased to announce the release of our newest database utility, The Library. This software provides your institution with one central repository of branch and market information for anyone in your institution to view. The Library houses information about all aspects of your branch network. For each current and proposed submarket, The Library stores information about:

Branch configuration: size, age, lease terms, number of drive-in lanes, staff level, hours of operation, and current manager.

Market profile: retail anchors, primary employers, pending developments, vacancy rate, and residential composition.

Demographics: summary, consumer and business demographics, such as population, growth, density, income, age, and number of employers.

Competition: a list of competing branches, and information about each such as configuration, number of drive-ins, presence of ATMs, size, and other comments.

Map: view a map of the submarket, with all competing branches plotted.

Photographs: The Library can store an unlimited number of photographs about the branch environment. You can include interior and exterior photos of your branch, photos of competing branches, or nearby retail developments. This feature also supports display of branch floor plan drawings.

The Library allows departments such as Marketing, Properties, Branch Administration, Delivery Systems, and even call centers to share current information about each branch and its surrounding areas.

HOW IT WORKS

The client sends Bancography a list of its current branches and proposed new submarkets. Bancography compiles the initial database, including the demographics, competitive listings, and maps. The client then completes the branch and market profiles and adds photographs as it collects the information. For large branch networks, branch and market data can be imported directly into The Library. The program also easily supports adding new submarkets and branches, and allows for quick updates of all information stored in the database.



To order a demonstration disk of The Library, call us at **205.251.6227** or request a demo disk

online at www.bancography.com

LIBRARY



SATISFACTION & LOYALTY MONITOR

Financial institutions are quickly realizing the necessity of building an aggressive sales organization in order to compete in our increasingly fragmented industry. But emphasizing sales may negatively affect customer service. Too often, customer service personnel neglect fundamental service tasks in pursuit of incentive rewards from sales management systems.

By impounding service quality in its incentive system, an institution can create a culture that rewards sales but still insures that its customers receive fast, accurate, professional service. Regular measurements of retail or commercial service levels will help an institution identify and remedy situations that would leave it vulnerable to customer attrition. An ongoing satisfaction and loyalty program can also yield information about the institution's competitiveness, convenience, and customer loyalty.

Bancography assists the institution in designing the appropriate tracking program for your culture. Management chooses the data collection methodology (mail or telephone) and the tracking and reporting frequency (quarterly or semi-annually). Bancography then implements, manages, reports, and recommends tactics based on the results. Bancography offers a standard survey so that your bank can compare its results to other institutions; however, the instrument reserves several questions for custom inquiries that reflect your bank's specific needs.

Primary Components

- Quarterly or semi-annual data collection (mail or telephone surveys) of 150 customers per branch
- Questions addressing service, competitiveness, and problem resolution, plus rotating issues section
- E-mail notification of any negative comments
- Results produced by branch and for all roll-up levels
- Graphs comparing branches within each reporting unit (e.g. city, region)
- Cross-tabs by demographics and cross-sell level
- Optional flag for top tier households
- Significant findings and recommendations distributed with each trended report whether quarterly or semi-annually
- Annual on-site discussion of results including comparisons to other programs

Metro Bank: Retail Satisfaction and Loyalty Monitor



State	Georgia					Third Quarter, 2000			
Region	Atlanta								
Branch	Sandy Sorines	Branch ID:	41						
Percent rating superior or excellent									
			Quarter: Current	Last 4				Quarter: Current	Last 4
<i>Branch Service</i>									
Friendly and helpful branch staff			71%	71%	Level of service charges and fees			52%	52%
Accuracy in conducting transactions			67%	67%	Willingness to make loans			71%	71%
Knowledge and competence of staff			62%	62%	Competitiveness of loan rates			71%	71%
Explanation of products and procedures			62%	62%	Competitiveness of deposit rates			71%	71%
Speed of transactions			67%	67%	Ability to meet all financial needs			67%	67%
Branch staff gives you a feeling that they are interested in you			71%	71%	Ease of account opening process			76%	76%
Decision making authority of branch staff			67%	67%					
Branch Service Index			67%	67%	Product Competitiveness Index			68%	68%
<i>Problem Resolution and Loyalty</i>									
Problem cited in past 3 months			19%	19%	Accessibility of primary branch			81%	81%
Problem resolved satisfactorily			75%	75%	Accessibility of primary branch's ATM			86%	86%
Considering switching institutions			14%	14%	Hours of branch operation			76%	76%
Due to service			67%	67%	Convenience of other branch locations			81%	81%
Due to rates or fees			0%	0%	Convenience of other ATM locations			76%	76%
Due to convenience			33%	33%	Branch Access Index			80%	80%

21 interviews this quarter; 100 interviews last 4 quarters

CONTINUED FROM CASE STUDY, PAGE 1

Next, for all consumers that purchased installment loans, we rolled back the database to eliminate the loan account and all products purchased subsequently. We then had a profile of what consumers looked like before they purchased their loan. Now, we applied a general linear model to divide those who bought installment loans from the general population. A linear model combines regression and analysis of variance to produce an equation that divides the buyers from non-buyers, based on their demographics. The higher the score on the equation, the more likely the

household was to have purchased an installment loan.

Finally, we applied the equation to the entire database. Households that scored high for installment loans but did not already own one were given top priority for cross-sell mailings. The models were repeated for each of the other target products.

The bank uses the models in several ways. It can examine all households and send each a mailing for whichever product on which it scores highest.

Alternately, it can send mailings for a given product for all households that exceed a given score. Finally, it can work backward from a budget, and solicit the 'X' highest scoring households, where 'X' equals the budgeted volume for the mail campaign. Since implementing the models, the institutions cross-sell models have outperformed a control group by over 50%. Long term, the bank plans to extend the models' use beyond direct mail applications, to outbound teleconsulting and point of sale based screen prompts.

HOW TO CALCULATE MARKET SHARE

Bankers often seek information about their competitive position, using both primary and secondary research to estimate market share. But market share can be defined in various ways. In our continuing effort to clarify the industry's lexicon, we present below Bancography's definitions of various market share terms, and discuss the merits of each.

Deposit share: The most frequently used proxy for market share, primarily because the FDIC collects branch level deposit statistics annually. FDIC deposit share offers a good indicator, subject to a few pitfalls. FDIC statistics contain all deposits, with no separation of consumer, commercial, and public funds deposits. FDIC numbers will be skewed in markets where banks book out-of-market deposits at their main offices. For example, in the Charlotte MSA, Bank of America and First Union report a combined \$50 billion in deposits; it is highly unlikely that those deposits all originate from the metro's 580,000 households. FDIC data are publicly accessible, and you can view deposit share statistics for any county or metropolitan area on the FDIC website at: www3.fdic.gov/sod

Household penetration: This statistic reflects the proportion of households in a given geography that maintain relationships with the bank. It is easily calculated from a CIF or MCIF report. Simply divide your bank's households by the number of households in the market. Note that the sum of each bank's penetration will exceed 100%, since consumers maintain relationships at multiple institutions. But as a proxy for what share of a community the bank interacts with, household penetration offers a useful, and easily calculable statistic.

Primary household share: Obtained only through first-hand research, this statistic shows what proportion of consumers cites a bank as their primary institution. Because it requires a normative assertion from the consumer, this measure can not be derived from a bank's internal files. But any time the bank collects survey data from a market-representative sample,

it should ask 'What institution do you consider as your primary bank?' This statistic will always lag household penetration, since the latter impounds all households that maintain any relationship with the bank, while this includes only the subset of bank clients who consider the institution their primary provider. If the assumption that all banks carry similarly fragmented relationships with their clients holds true, then this measure represents a reliable proxy for true market share.

Product level market share: This measure is calculated at the product level and answers questions such as 'What share of checking accounts (or balances) does my institution hold?'. The numerator for this calculation is simple to obtain; it is the sum of accounts or balances in the specified product type on the bank's books. The denominator requires a demand estimate for the geography under study. Constructing demand estimates involves three steps. First, divide the market into demographic segments. Second, estimate demand for each segment on a per household basis, using data compiled either from primary research or from your bank's MCIF. Finally multiply the per household demand estimates by the number of households in the segment for each segment. The aggregate total of this summation represents market demand, the denominator that allows calculation of product level market share. This tactic provides the only means for projecting market share of a specific product other than through broad primary research. However, as with all modeled data, error rates will increase in small geographies.

Wallet share: This statistic reflects what proportion of a consumer's total holdings the bank captures. As such, it is a measure of the bank's penetration of its own customer base, and should not be confused with any measure of market share. We will explore tactics for estimating wallet share in a future issue of Bancology.

WWW.BANCOGRAPHY.COM

EXHIBIT

For the second year, Bancography will **exhibit** at the American Bankers Association's Marketing Conference. This year's event is September 22-24 in Miami Beach, Florida. Last years conference was a success for both Bancography and the bankers in attendance. The ABA Marketing conference offers a great opportunity to hear presentations from industry leaders. We look forward to the conference and strongly suggest your attendance as well! Visit us in the exhibit hall at Booth #408.

BRANCHPLANNER

In mid-August we'll release the latest update to **BranchPlanner**, Bancography's software tool that provides demographics, competitive data, and financial projections for any current or proposed branch location in the United States. The update will include 2002 actual / 2007 projected demographics. It also adds a new feature to forecast business deposits and loans in addition to consumer balances.

RETENTION

Bancography was featured in an article on measuring and managing retention in the **ABA Marketing Journal** of June 2002. The article quoted statistics from Bancography's Market Awareness and Competitive Research study, and discussed our methods of calculating retention, cross-sell, and churn.

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