FOUR STEPS TO CREATING Actionable Customer Segmentation
Bank marketers face many challenges in getting the appropriate messages and offers to the appropriate prospects and customers. Their marketing budgets are under scrutiny, media markets are fragmenting and consumer preferences are evolving. In fact, consumers have many choices in regard to what information they receive and how they receive it. Increasingly they are taking control. But the cost of both awareness efforts and direct media campaigns are substantial as indicated in January 2014 research from the Consumer Financial Protection Bureau.
Cost to Target Today’s Financial Consumer

$5.5B AWARENESS ANNUAL SPEND

- 16% TV Advertising
- 15% Display Ads
- 9% Radio Ads
- 5% Magazine Ads
- 5% Outdoor Ads

$12B DIRECT MARKETING ANNUAL SPEND

- 44% Internet Display and Search
- 22% Direct Mail
- 16% Direct Response TV Advertising
- 8% Direct Response Print Ads
- 4% Social Networking
- 2% Direct Response Radio Ads
- 2% Marketing Emails
- 2% Other Methods

Source: Consumer Financial Protection Bureau in January 2014 The Financial Brand

Credit Card
Banking: checking, savings
Services: ATM, check cashing
Cost to Target Today’s
FINANCIAL CONSUMER

The key is to spend these marketing dollars wisely. Accurate, targeted marketing campaigns are crucial to reach the increasingly connected consumer effectively. In order for these campaigns to be successful, bank executives must know the answers to key questions such as:

- Who are my best customers?
- What is the potential demand for a particular product?
- How do I find growing consumer segments and markets?
- Which markets offer the best opportunity?
- How do I reach consumers most effectively?
In order to create insightful and useful customer segmentation, banks must maximize the use of demographic and market data. Knowledge of customers and markets is power – power that can help your offers stand out in a crowded field. Demographic and market data provides the foundation to understand market competition, to gain knowledge of potential in the marketplace and to develop more complete customer profiles to pursue targeted opportunities. In order to create effective segmentation, the following four-step approach can be applied:
1. **KNOW YOUR COMPETITION**

An analysis of where your competitors’ branches are located in your market area provides a good starting analysis for your bank. The following example shows such an analysis for a bank with branches in the southern United States. In this particular analysis, the top five institutions have 34 percent of the branches in the defined market area.

Source: FIS Analytics
Beyond location, the product offerings of your competition must be understood and evaluated. The following matrix shows a checking product analysis for each of the institutions listed in the bank’s market area.

### COMPETITOR ANALYSIS FOR PRODUCTS AND OFFERINGS:
QUALIFICATIONS AND REWARDS BY BANK TYPES

<table>
<thead>
<tr>
<th>Source: FIS Analytics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type</strong></td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
</tr>
<tr>
<td>Bank of America</td>
</tr>
<tr>
<td>Citigroup Inc.</td>
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<tr>
<td>Wells Fargo</td>
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<tr>
<td>US Bank</td>
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<tr>
<td>Bank of America</td>
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<tr>
<td>Ave</td>
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<td>Regions Financial</td>
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<td>Arvest Bank</td>
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<td>First Security Bank</td>
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<td>Bank of the Ozarks</td>
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<tr>
<td>BancorpSouth Bank</td>
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<tr>
<td>Iberiabank</td>
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<tr>
<td>First National Bank</td>
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<tr>
<td>First Federal Bank</td>
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<tr>
<td>First Community Bank</td>
</tr>
<tr>
<td>Focus Bank</td>
</tr>
<tr>
<td>Simmons First Bank</td>
</tr>
<tr>
<td>Ave</td>
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2. **ASSESS MARKET POTENTIAL**

As a bank seeks to understand the potential in their market footprint, they need to assess if the market itself is growing or shrinking. Many banks make the mistake of evaluating territories or markets based on historical performance rather than potential opportunities. A true assessment of market potential forces this type of critical review. Below is a section of a fair share analysis created by FIS™ to demonstrate to a bank the unrealized market potential available in the markets it serves. The red highlighted areas indicate opportunities.

<table>
<thead>
<tr>
<th>Products</th>
<th>Sample Bank</th>
<th>Market Footprint</th>
<th>Sample Bank</th>
<th>Market Footprint</th>
<th>Ave Bal Differences</th>
<th>Share of HH</th>
<th>Share of Wallet / Balance</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Checking</td>
<td>49%</td>
<td>48%</td>
<td>$ 2,500</td>
<td>$3,660</td>
<td>($1,160)</td>
<td>25%</td>
<td>17%</td>
<td>71,032</td>
</tr>
<tr>
<td>Interest Checking</td>
<td>25%</td>
<td>40%</td>
<td>$ 12,000</td>
<td>$6,931</td>
<td>$5,069</td>
<td>16%</td>
<td>27%</td>
<td>67,763</td>
</tr>
<tr>
<td>Regular Savings</td>
<td>21%</td>
<td>73%</td>
<td>$ 11,000</td>
<td>$31,037</td>
<td>($20,037)</td>
<td>7%</td>
<td>3%</td>
<td>136,058</td>
</tr>
<tr>
<td>First Mortgages</td>
<td>31%</td>
<td>43%</td>
<td>$ 120,000</td>
<td>$107,696</td>
<td>$12,304</td>
<td>18%</td>
<td>20%</td>
<td>70,156</td>
</tr>
</tbody>
</table>

Source: FIS Analytics
The next step in the process is to establish meaningful market segments by creating customer profiles relevant to the market area(s) the bank plans to pursue. This is where the experience of a provider of demographic data can pay off. FIS utilizes sources such as Nielsen. Their customer profile approach identifies distinct segments within Lifestage Groups. Predictive demographics are optimized around financial product preferences. The principal drivers for this optimization are consumer income, age and income-producing assets. November 2013 Nielsen research has identified five distinct multichannel customer segments as shown.

It is important to understand how your bank customers compare to the overall bank market footprint. This determines opportunities to refine marketing strategies based on the profile of consumers residing in your footprint.

The inclusion of county, state or the entire U.S. as a benchmark helps to quantify uniqueness within your bank’s market footprint. The next step is to link knowledge and findings to an action plan that is aligned with the overall bank growth and retention objectives.
**4. PURSUE TARGETED OPPORTUNITIES**

Armed with the customer profile analysis, banks can now use the competitive landscape and market potential to create targeted market opportunities. Additionally, they can create a unique marketing message and a communications strategy for each target audience. Consumers expect messages and offers that resonate with their individual circumstances. Gone are the days of shotgun advertising with a one-size-fits-all approach. The following attributes are examples of the characteristics available within a customer profile.

**CONNECTING WITH MULTICHANNEL CUSTOMER SEGMENTS**

**ESTABLISHED**
- Support both branch and online
- Build trust and confidence in mobile banking
- Focus on tablet usage to expand and diversify their channel usage

**SOPHISTICATE**
- Banking needs to fit busy lifestyle
- Value ease and convenience of smartphones, tablets and withdrawing cash from ATM
- Show efficiency and they will be open to other channels

**TRADITIONALIST**
- Visit their local branch
- Open to online and mobile
- Use of tablets

**CONNECTED**
- Use mobile banking or call center
- Reach by smartphones
- Encourage other channels by emphasizing speed and efficiency

**PRACTICAL**
- Value the speed and convenience of online banking and the call center to manage finances
- Build trust in mobile banking
- Open to mobile via smartphones

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CASE STUDIES OF DEMOGRAPHIC DATA IN ACTION

IDENTIFYING POTENTIAL HOMEOWNERS

SITUATION
A community bank was looking to increase its new mortgages and HELOCs to meet its annual goal for lending.

In addition, bank was looking to attract younger customers to offset its maturing customer base.

RESEARCH / ANALYTICS
First-time homeowners are 25- to 35-year-old renters. Include messaging and offers that foster education about credit reporting, lending products and insurance.

HELOC customers are homeowners between 35 and 60 years old with above average income and a loan-to-value ratio of <65.

SOLUTION
Identify potential first-time homeowners utilizing propensity models.

Utilize existing HELOC profiles to determine best acquisition selection criteria.
A large regional bank wanted to increase knowledge about existing commercial customers for additional lending needs. Target potential new commercial lending customers.

**SITUATION**

Obtain available public records that can supplement the bank’s existing commercial customer data:
- Business demographics and firmographics
- UCC filings
- Commercial mortgage lending filings

**RESEARCH / ANALYTICS**

Utilize match logic to known UCC filings in the past five years for existing customers.

**SOLUTION**

Supply information to commercial lenders to drive additional sales.

Identify potential new commercial lending bank customers by utilizing past UCC filings.
Banks that employ both market and customer segmentation will create meaningful messages to the correct audience at the right time. The days of investing in broad awareness campaigns no longer exist. Targeted and focused marketing is a key to bank survival.