Behavioral Segmentation for Analysis and Targeting in Financial Services Marketing

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An unbiased, objective view of the market and its growth opportunities requires fully integrating market research intelligence into data that supports tactical programs

What Is Missing in Current Market Assessment and Targeting?

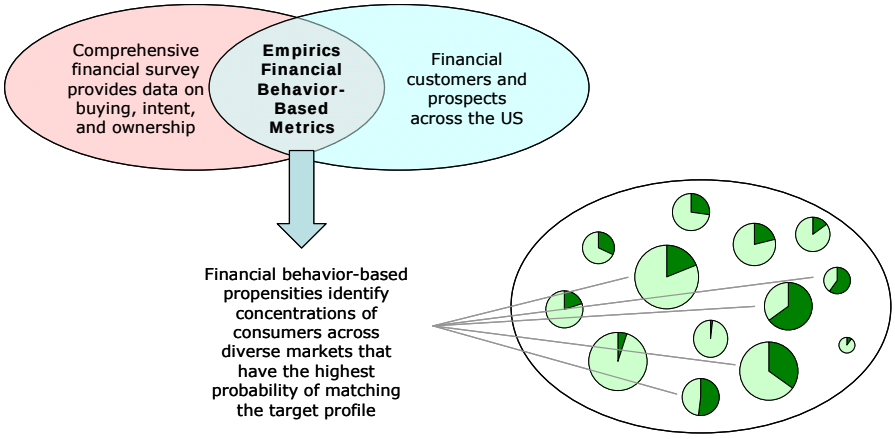
Current techniques for assessing markets and targeting prospects for financial and insurance products heavily rely on:

- Mined internal data such as customer buying and response history
- Syndicated, pooled, or consortium data
- Descriptive, third party data such as customer demographic, psychographic and socio-demographic profiles
- Transaction data (e.g., credit bureau data)

What is missing is an objective view of today's total market for the product.

Internal and consortium sources provide information representative of the market share of the firm or the contributors. Third party data provides record-level descriptive information. This descriptive information is then used to develop a profile of the buyer, which is often linked to behavioral data. The buyer profile then is applied geographically and in database marketing. Credit data is often used in prescreening.

Using Financial Behavior to Identify and Target Market Opportunity



Current consumer behaviors drive opportunity identification throughout the US market

Bias limits the scope and utility of these market analyses: neither any one institution nor any group of institutions' data can fully represent and encompass all the financial product buying behavior in the entire market. Relying only on internally-biased analysis allows your competition the opportunity to realize gains that changes in the market have produced.

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An objective view of the market and its growth opportunities requires using market research. Well-designed survey research offers the best opportunity to build and integrate this objective view of the market. Consider that none of the following vital information is discoverable by mining internal data:

- One in three US households uses more than one investment firm
- Four in ten US households buy mutual funds from more than one firm
- Thirty-five out of 100 US households use more than one bank*

Market research findings can be applied in tactical analyses and programs, thus adding objective information that compensates for the more limited views. Information Asset Partners' Empirics provides objective metrics that are used in all phases of marketing.

Empirics leverages market research intelligence into metrics that can be applied in all phases of the marketing process

Creating Behavior-Specific Market Metrics

Empirics is a predictive segmentation that provides financial product-specific behavioral segmentations for assessing and targeting market opportunity. Buying, behavioral, and attitudinal data is provided by Consumer Financial Decisions' MacroMonitor (www.sric-bi.com/CFD), which has been supporting leading financial institutions with research data and insights since 1978. Census block group population and household demographics provide information for modeling, assuring comprehensive and uniform market coverage and privacy.

Empirics is designed to provide granular, highly specific segmentation for tactically-relevant consumer behaviors and characteristics. There are 23 Empirics segmentations, each having two sets of data:

Empirics Propensities: The probability, or concentration rate, of the target behavior. These probabilities are driven by statistical models built with MacroMonitor behavior and block group data. Empirics Propensities support strategic solutions such as market assessment and marketing resource allocation.

Survey-based Analytics Provide Highly Specific, Behavior-Based Solutions

Empirics Predictive Behavioral Segmentations

Financial Behavior and Intent	Investments
Obtain Financial Products via Direct Mail	Invest in Stock Mutual Funds Not Currently Held
Switch Primary Financial Relationship	Invest in Bond Mutual Funds Not Currently Held
Use Multiple Financial Relationships	Invest in Money Market Deposit Accounts
Attend Financial Seminars	Invest in Money Markets Accounts ≥$10,000
Use Fee-based Financial Advice	Invest in 529 Plans (college savings)
Insurance	Invest in Annuities
Buy Life Insurance (all types)	**Credit**
Buy Term Life Insurance	Apply for a New Credit Card
Switch Auto Insurer	Borrow via Home Equity Line of Credit
Health Insurance	**Financial Assets**
Buy Disability Insurance	Net Worth ≥$1,000,000
Buy Individual Health Insurance	Investable Assets ≥$500,000
Switch Individual Health Insurer	
Buy Supplemental Health Insurance	
Buy Long Term Care Insurance	

Empirics Ratings: Ratings tier block groups into segments that are indexed according to the US average propensity. For example, the *Most Likely* rating can have an index of 500, which means that the buying propensity associated with this segment is 5 times the US average. Correspondingly, an Empirics *Unlikely* rating may have an index of 40, indicating that the buying propensity is 40% of the US average. Five Empirics Ratings (*Most Likely*, *Highly Likely*, *Likely* (average), *Somewhat Likely*, and *Unlikely*) differentiate markets according an indexation of the US average. Ratings support tactical solutions such as cross-selling and new customer acquisition campaigns.

About Us

Information Asset Partners is an analytic product development, marketing, and consulting firm. We specialize in the development and application of precision targeting and decision support products that focus on customer value.

* SRIC-BI's 2006-07 MacroMonitor

Assessing Today's Market and Targeting via Behavior-based Metrics

Empirics uses recent buying and intent behavior from the MacroMonitor to build a unique "look alike" profile of the target behavior. This profile drives the block group propensity to buy a product such as term life insurance or using fee-based financial advisors. Empirics Propensities, together with household counts, provide an objective evaluation of today's market in terms of qualified prospects. Empirics provides a behavior-specific Total Available Market (TAM) for each of the 23 segmentations. The segmentations can be used singly or in combinations to assess markets.

The following case study illustrates how to integrate TAM-based metrics into market assessment and targeting programs.

Financial product prospects who look like buyers across all channels and competitors make up the Total Available Market

Case Study 1: Evaluating the Total Available Market for a Financial Product

An investment firm would like to expand its business among households with high investable assets in New Jersey and Georgia. Even though Georgia and New Jersey have about the same number of households (NJ has about 4% less), Empirics determines that New Jersey's TAM has 19% more qualified prospects than Georgia.

Table 1: Market Assessment by State: Prospects with over $500,000 in Investable Assets

	Households	Qualified Prospects	Propensity (Concentration)
Georgia	3,419,494	206,675	6.04%
New Jersey	3,293,890	245,840	7.46%

Investable assets: The dollar value of household assets minus value of business, selling price of the primary home and other real estate, tangible assets, owned vehicles, as well as values of salary reduction plans and 529 Plans

Empirics enables the firm to drill down geographically to the county level. Table 2 represents the top five Georgia and New Jersey counties based on number of qualified prospects (TAM). The propensity shows the concentration of prospects with investable assets over $500,000 and the state index compares each county to the state average.

Table 2: Households with Investable Assets over $500,000: Top GA and NJ Counties Ranked by Total Available Market

	Households	TAM (Qualified Prospects)	Propensity (Concentration)	State Index
Georgia: Largest Prospect Counties				
Fulton	337,344	30,350	9.0%	149
Cobb	253,970	19,728	7.8%	129
Dekalb	259,885	19,585	7.5%	125
Gwinnett	258,208	16,876	6.5%	108
Chatham	96,010	7,206	7.5%	124
New Jersey: Largest Prospect Counties				
Bergen	346,163	30,931	8.9%	120
Monmouth	239,438	22,163	9.3%	124
Essex	295,177	21,930	7.4%	100
Middlesex	291,813	18,834	6.5%	87
Morris	182,949	17,759	9.7%	130

Table 2 is a good illustration of how TAM and concentration rates differ across the top five NJ and GA counties. For market assessment and prioritization, the TAM and concentration rate are better criteria than the number of households. Below is an example of how different county ranking can vary with each marketing criteria.

	County Rank within State		
	Total Households	Total Available Market	Propensity (Concentration)
Cobb County, GA	4	2	3
Morris County, NJ	8	5	1

Product-specific behavioral segmentation provides highly specific, prioritized campaign targeting within a geographic market

After evaluating the representation of the Total Available Market, the investment firm can explore how it deploys its marketing resources, including:

- Brick and mortar locations
- Facility size and staffing levels
- Locations for seminars or promotional events
- Third party distribution partners
- Local media placements and sponsorships
- Direct marketing campaigns

Case Study 2: Total Available Market-Based Prioritization in a Direct Mail Acquisition Campaign

In acquisition and cross-sell targeting, the TAM provides a means of assessing revenue opportunity. Product-buying concentration rates provide a means of improving ROI via lower acquisition costs. Empirics Ratings then provide a ready way to prioritize qualified prospects. Below is an illustration of how Empirics assesses and prioritizes markets within a state.

An insurer plans to market term life policies in NJ. The current TAM metrics for NJ are developed using the Empirics term life insurance segmentation:

- 159,699 qualified prospects represent 4.85% of NJ households
- NJ's state-level propensity for term life is 23% below the national average

Drilling down to the county level reveals that only Hudson and Passaic Counties have term life insurance propensities higher than the national average (see National Index); ten out of 21 counties have propensities higher than the state average (see State Index). Note that each county's term life Total Available Market does not reflect population nor is the TAM correlated with buying propensity.

Table 3: Identifying NJ Target Markets for Term Life Insurance Direct Marketing Campaigns: Top 5 Counties Ranked by Number of Prospects

NJ County	Households	TAM (Prospects)	Propensity (Concentration)	National Index	State Index
Hudson	233,228	20,340	8.72%	138	200
Bergen	346,163	17,541	5.07%	80	116
Essex	295,177	12,282	4.16%	66	96
Passaic	172,505	12,244	7.10%	113	163
Middlesex	291,813	11,648	3.99%	63	92

Building the New Jersey customer base may be more resource-intensive because the market, while large and attractive, has numerous sub-par concentration rates for the product. However, Empirics can provide a means of controlling costs by prioritizing a direct marketing campaign(s).

Table 4 illustrates how Empirics assesses and prioritizes the Hudson and Essex Counties, NJ markets. Among Hudson's 233,228 households, 20,348 are qualified term life prospects; in Essex County, 12,282 out of 295,177. Empirics ratings identify high propensity markets regardless of whether the county has an overall high (Hudson) or low propensity (Essex). The "Most Likely" market in Hudson County represents the 8.3% of households that constitute 29.4% qualified prospects. The national index for the *Most Likely* segment increases more than threefold from the county index of 138 to an index of 490.

Empirics product-specific metrics allow markets to be identified and the highest propensity prospects to be targeted

Table 4. Prioritized Empirics Targeting within High Propensity Markets

Hudson County, NJ			
	Households	Prospects	National Index
All	233,228	20,340	138
Most Likely	19,403	5,988	490
Percent of Total	8.32%	29.44%	
Most Likely + Highly Likely	71,793	13,487	306
Percent of Total	30.78%	66.31%	
Essex County, NJ			
All	295,177	12,282	66
Most Likely	8,360	2,264	430
Percent of Total	2.83%	18.43%	
Most Likely + Highly Likely	23,921	4,467	296
Percent of Total	8.10%	36.37%	

Empirics Ratings enable product-specific prioritization of prospects. If the campaign's objective requires more prospects than are available from the Empirics-rated *Most Likely* prospects, the next level of term life insurance-buying propensity can be included in the campaign. Hudson's *Most Likely* and *Highly Likely* rated markets together constitute 30.8% of its households, representing 66.3% of qualified prospects.

The same process is applied to Essex County, where the term life prospect concentration is 34% below the national average. Essex County's *Most Likely/Highly Likely* markets represent 8.1% of households and 36.4% of the term life-qualified prospects. Empirics targeting increased the index from 66 to 296.

Why use Empirics Ratings for target prioritization rather than just the Empirics Propensities? The Ratings standardize market classification based on a national indexation. The indexation is not affected by the absolute values of the Propensities. Ratings provide an easy way to identify priority markets across different financial behaviors that Empirics measures.

Case Study 3: Empirics and Direct Marketing Campaign ROI Benchmarking

Empirics is used to determine how many and which households "look like" the best prospect for a financial product. These prospects are most likely to be evaluating and buying the product across all competitors. The number of prospects who are likely to be today's buyers represent the Total Available Market, a metric that all the players in the market confront as they compete for sales.

Empirics segmentations can be used as benchmarks to evaluate how marketing resources and targeting are deployed

In setting expectations for campaign response rates, Empirics provides a benchmark for the market. As competitors compete to upsell and acquire customers their offers and creative confront buying propensity dynamics defined by Empirics. Developing campaigns that produce high response from high propensity prospects can produce superior ROI.

Table 5 illustrates how an insurance company uses Empirics Propensities to assess marketing opportunity and benchmark acquisition costs in Essex County, NJ. The county has 12,282 term life insurance-qualified prospects, 4.16% of households. Acquisition objectives that represent targeting 50%, 25%, or 10% of the county's Total Available Market translate to response rates of 2.08%, 1.04% and .416%, respectively. Assuming 100% approval rates, in the best case scenario the insurance company will acquire 6,141 new customers; 1,228 in the worst case. Acquisition cost varies from $48 to $240 per new customer.

Empirics Propensities size marketing opportunity

Table 5: Acquisition Scenarios for Targeting Essex County, NJ Term Life Insurance Prospects

Number of Households	Number of Term Life Prospects	Term Life Prospect Propensity	Market Penetration Scenario	Expected Response Rate	Number of New customers	Cost per customer $1/mailer
295,177	12,282	4.16%	50%	2.08%	6,141	$48.07
295,177	12,282	4.16%	25%	1.04%	3,071	$96.10
295,177	12,282	4.16%	10%	.416%	1,228	$240.40

Empirics Ratings target prospects who "look like" today's buyers from competing firms

Table 6 illustrates how Empirics Ratings are used to prioritize target marketing within Essex County, reducing acquisition cost. The TAM for Empirics segments with *Mostly Likely/Highly Likely* ratings is 4,467 prospects. Under the same acquisition scenarios, the opportunity for the insurer within these best segments varies from 2,233 to 447 new customers, with acquisition costs ranging between $11 and $54 per new customer.

Table 6: Acquisition Scenarios for Targeting Essex County, NJ Empirics TAM (Empirics *Most Likely/Highly Likely* Ratings)

Number of Households	Number of Term Life Prospects	Term Life Prospect Propensity	Market Penetration Scenario	Expected Response Rate	Number of New Customers	Cost per customer $1/mailer
23,921	4,467	18.7%	50%	9.35%	2,233	$10.70
23,921	4,467	18.7%	25%	4.67%	1,117	$21.40
23,921	4,467	18.7%	10%	1.87%	447	$53.50

Clearly, if the campaign's acquisition objective is 500 new customers, targeting can be limited to the Empirics prime markets. If the campaign objective is 1,500, targeting only the prime markets will require an aggressive scenario that assumes 25-50% market share of the current TAM.

Will non-TAM prospects buy? Probably, but marketing performance expectations should be modified because resources and targeting are not fully aligned with today's Total Available Market. Analytics that rely predominantly on internal data, such as response models, are designed to optimize within defined and stable product, offer, pricing, and competitive states. These model drivers are primarily historical, internal, and third-party data used may not represent current profile of the product buyer.

Because market-based metrics address the total market they can improve the performance of internally-generated data and models

If the internally developed analytics, positioning, branding, and programs do not integrate the current TAM, it's very possible that the same campaigns that they support will not improve through Empirics targeting alone. If the TAM consumer is not fully represented in the strategy, these prospects may require a different approach. After campaigns have adequately targeted TAM prospects, then evaluations of both offer and creative can be performed.

To improve performance, objective behavior-based metrics such as Empirics should be used as benchmarks to evaluate how marketing resources and targeting are deployed. Not addressing the best prospects available in the market means that they are becoming new customers for the competition, most likely at an advantageous ROI.