

MacroMonitor *Marketing Report*

Vol. VI No. 11

October 2004

Optimizing Marketing Performance: Linking the MacroMonitor to Markets, Customers, and Prospects

The mass market for consumer financial services is splitting apart. New demographic configurations, lifestyle choices, and media channels are fragmenting the consumer base. Not surprisingly, direct marketing strategies are also evolving into tightly targeted campaigns, enabled by new database technologies and segmentation techniques.

This **MacroMonitor Marketing Report** highlights the use of the Consumer Financial Decisions Program's **MacroMonitor** to develop Information Asset Partners' tactical marketing tool Empirics. This innovative direct marketing application builds on **MacroMonitor's** 11 batteries of nearly 120 survey questions relating to U.S. households' propensity to buy specific financial products and to use various types of delivery channels. Empirics segments the more than 117 million U.S. households at the census-block-group level into five purchase-propensity segments: Most Likely, Highly Likely, Likely, Somewhat Likely, and Unlikely. (See the box on page 7.)

Defining Best Prospects

Empirics is a product-specific, predictive segmentation. For specific financial products and services, Empirics answers the dual questions "Who is most likely to buy?" and "Where do buyers live?" Empirics identifies different propensities for the same block group depending on the financial product or service being marketed.

For example, as Table 1 shows, a specific Buffalo, New York, area has good potential for marketing annuities and financial seminars. The same geographic location is not a good target market for term life insurance. Specifically, Block 8003 is a prime market for long-term care insurance (Most Likely). Empirics also identified the contiguous Blocks 7002 to 7004 as Highly Likely to buy annuities. And



An SRI International Business Partner

although attending financial seminars is of overall interest to these block groups, Block 7003 will likely not respond positively to a financial-seminar invitation to the same degree as the other contiguous neighborhood block groups.

Table 1
EMPIRICS SEGMENTATION FOR BUFFALO, NEW YORK, AREA

Contiguous Block Groups*	Attend Financial Seminars			
	Buy Annuities			
	Buy Long-Term-Care Insurance			
	Buy Term Life Insurance			
7002				
7003				
7004				
7005				
8001				
8002				
8003				
8004				
8005				
8006				

* Complete block group identification: 360290007002–360290008006

Source: Information Asset Partners

Differentiating Delivery-Channel Affinity

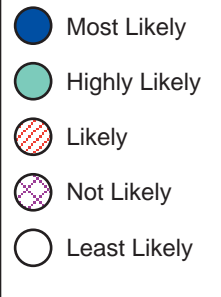
Despite the convergence in the financial-services industry that allows banks, brokerages, and insurance companies to sell similar products and services, consumers continue to have specific institutional preferences about where they purchase their financial products. Consumers exhibit specific, individual preferences when deciding to purchase a financial product, such as an annuity, from a bank or from a brokerage/financial advisor or from an insurance company. Their

preference depends on the level of trust that they accord to an institution and their personal experience in dealing with that type of institution.

Empirics can differentiate the census-block groups by channel preferences for buying the same financial product. As Table 1 shows, the contiguous Block Groups 7002 to 7004 are all Highly Likely to buy annuities. But their institutional preferences about where they are likely to purchase annuities vary. As Table 2 reveals, Block 7003 is Most Likely to buy an annuity from an insurance company; Block 7002 is Highly Likely to buy either from a brokerage/financial advisor or from an insurance company. And among the three contiguous Block Groups, Block 7004 shows the least preference for banks as the annuity delivery channel (Not Likely).

Table 2
DELIVERY-CHANNEL PREFERENCE FOR BUYING ANNUITIES IN THE BUFFALO, NEW YORK, AREA

Contiguous Block Groups*	Insurance Company		
	Brokerage/Financial Advisor	Bank	
7002			
7003			
7004			
7005			
8001			
8002			
8003			
8004			
8005			
8006			



* Complete block group identification: 360290007002–360290008006

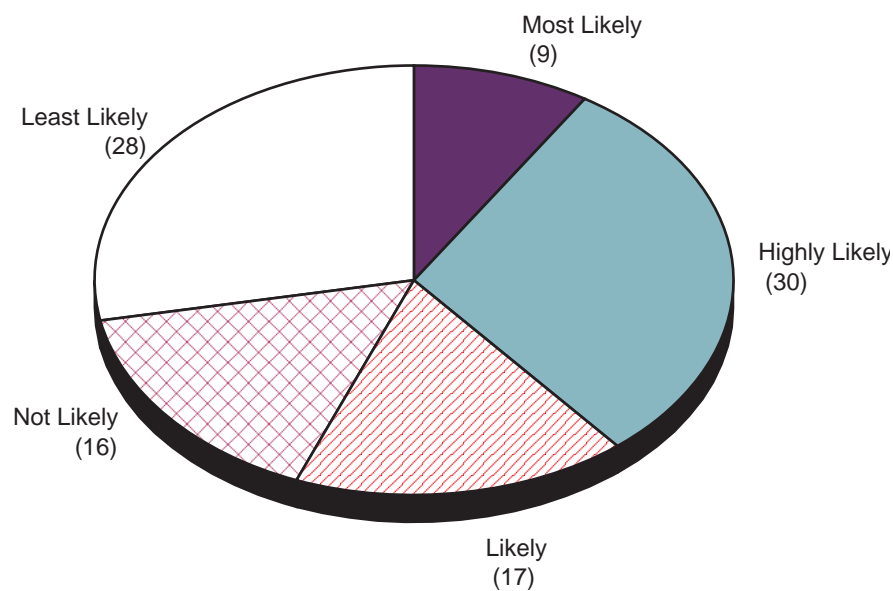
Source: Information Asset Partners

Sizing Cross-Sell Opportunities

Successful cross selling of financial products and services remains a challenge for many financial institutions. As the **MacroMonitor Marketing Report** (Vol. VI, No.10; August 2004) *Cross-Selling, Consolidation, and Aggregation: Progress Report for Financial Convergence* attests, a key to successful cross selling is the effective matching of customer needs to products.

Enhancing the institution's customer database with the Empirics segmentation system allows for more targeted sizing and identification of cross-selling prospects. For example, by appending a specific institution's database of money market deposit account (MMDA) customers, Empirics identified 9% of the institution's MMDA customers as Most Likely to buy long-term-care insurance. An additional 30% are Highly Likely buyers. Two in five MMDA customers are thus best prospects for cross selling long-term-care insurance (see Figure 1).

Figure 1
LIKELIHOOD OF MONEY MARKET DEPOSIT ACCOUNT CUSTOMERS
TO BUY LONG-TERM-CARE INSURANCE



Source: Information Asset Partners

Supporting Operational Decision Making

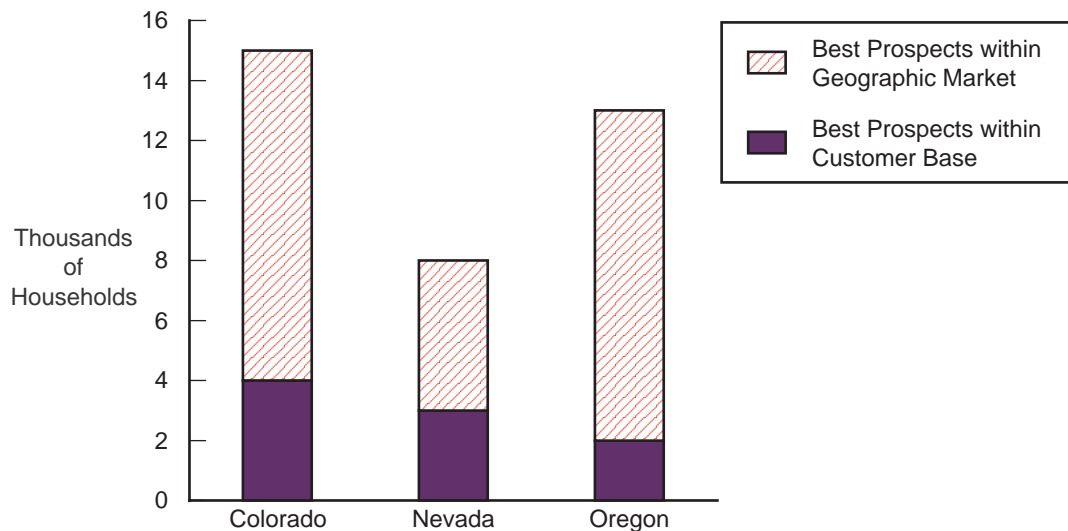
Marketing includes more than just making strategic decisions such as assessing market growth potential and targeting prospects with the right products. Integrating the strategic plan with internal operational decision making, such as to how to control costs and allocate corporate resources, is critically important as well. An institution can integrate **MacroMonitor** data into its own customer files and potential prospect lists, creating a seamless link and feedback loop between strategic and tactical decision making. In addition, by benchmarking internal policies to Empirics segmentations, institutions can develop realistic sales plans and find answers to questions such as:

- How do I allocate my sales staff across my branches?
- How do I set sales quotas?
- How do I align my staff’s performance metrics with the markets they serve?

Cross selling to current customers and acquiring new customers are two distinct processes. Empirics can differentiate growth opportunities for an institution within its current customer portfolio and within its geographic market. As Figure 2 shows, Empirics quantified a financial institution’s total best prospects (that is, households belonging to the Most Likely and Highly Likely segments) in Colorado, Nevada, and Oregon (for a financial product).

The data show Oregon as having the least number of best prospects within this institution’s customer base. But even though Nevada has an edge on Oregon in terms of having slightly more best prospects within the institution’s customer base, Oregon is a better overall market because the number of best prospects within its geographic market is twice the number in Nevada’s and closely rivals the number in Colorado’s market—and Colorado is the state with the highest total number of best prospects.

Figure 2
EMPIRICS-DEFINED BEST PROSPECTS WITHIN A SPECIFIC INSTITUTION’S CUSTOMER BASE AND GEOGRAPHIC MARKET



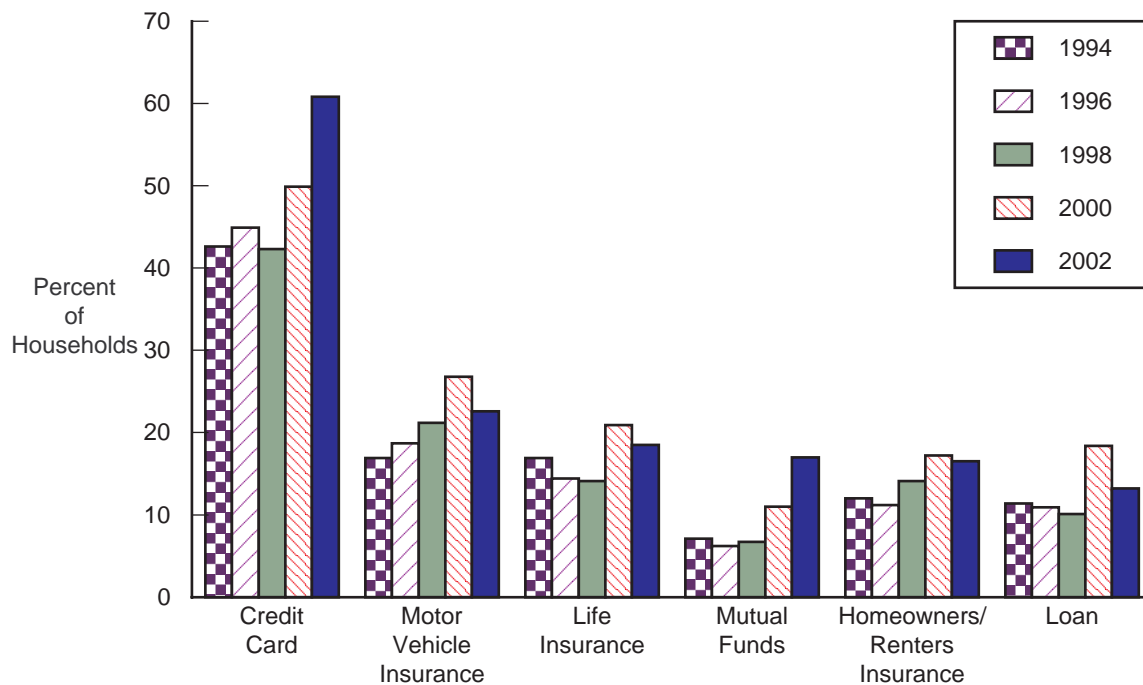
Note: “Best Prospects” combine Most Likely and Highly Likely segments.

Source: Information Asset Partners

The Future of Direct Marketing

Direct marketing trends indicate that consumers are more and more amenable to obtaining financial products and services via mail, telephone, or the Internet. As Figure 3 shows, the percentage of U.S. households obtaining various types of financial products through mail or telephone offers or through the Internet has been increasing in the past several years. Credit cards, in particular, have become the most widely accepted financial product marketed through direct means, with six in ten households in 2002 recently obtaining the product.

Figure 3
FINANCIAL PRODUCTS RECENTLY OBTAINED THROUGH DIRECT MARKETING*



* Obtained through mail or telephone offer, or obtained using the Internet site. Internet category is new in 2002. The **MacroMonitor** also changed the time frame: In 2002 and before, *recently* meant 5 years; in 2002, *recently* means 2 years.

Source: The **MacroMonitor**

But although direct marketing penetration is on a general upward trend, the dip in 2002 in the percentage of households obtaining financial products such as insurance and loans suggests that this trend can be fragmented and unstable. The period between 2000 and 2002 was marred by turmoil in the financial markets, highlighted by corporate malfeasance, questionable analyst recommendations, and the trauma of 9/11. The increased importance of trust in the financial professional in these turbulent economic times may have influenced consumers' reversion to methods of interaction with which they are more comfortable—in this case, face-to-face interaction.

Direct marketing campaigns have now moved from simple mass marketing to direct one-on-one communication with a targeted consumer. To optimize the institution's resources, the

marketing staff needs to identify and target receptive consumers cost-effectively with the right products, features, prices, and marketing messages. Empirics offers financial marketers—as a tactical extension to the **MacroMonitor** database—an off-the-shelf solution to improving direct marketing performance with speed and efficiency.

HOW EMPIRICS WORKS

Empirics's statistical models are based on **MacroMonitor** behavioral survey data and more than 700 demographic variables that Information Asset Partners developed using census data. Empirics identifies and weights the census-data elements (including age, income, home ownership, family composition, and ethnicity) that influence financial-product-buying behaviors and attitudes. It applies the resulting scores from the algorithm to the more than 211,000 census-block groups. As a predictive market-segmentation system, Empirics assigns prospects/customers by census-block group to one of five purchase-propensity or behavioral segments:

- Most Likely
- Highly Likely
- Likely
- Not Likely
- Least likely.

Empirics measures buying propensity for dozens of specific financial products at the block-group level and can quickly improve financial-product direct marketing and market-analysis processes.

The MacroMonitor is SRI Consulting Business Intelligence's Consumer Financial Decisions (CFD) database and marketing program. As part of the program, the **MacroMonitor Marketing Report** presents particularly interesting and useful findings that have direct implications for marketing financial services. We welcome your comments on this issue's topic and suggestions for new areas of inquiry.

Larry Cohen
Director, CFD
Telephone: +1 609 734 2048
Fax: +1 609 734 2094
E-mail: lcohen@srlic-bi.com

Bill Poll
Information Asset Partners
Telephone: + 1 732 261 7973
Fax: + 1 309 210 3598
E-mail: bpoll@iapartners.com