

## Investment Advisor to the Business

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*Successful investing is anticipating the anticipations of others.*

John Maynard Keynes

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The banking environment of today is rapidly changing and the rules of yesterday no longer apply. The corporate and legal barriers that separate the various Banking, Investment and even Insurance sectors are less well defined and the cross-overs are increasing. As a consequence the marketing function is also changing to better support the bank in this dynamic market environment. The key marketing challenge today is to support and advise the focus, positioning and marketing resources needed to deliver performance on the bank's products and services. Marketing as an investment advisor, is about re-defining the delivery needs within not only key strategic market segments but increasingly refined to relevant micro-segment.

The marketing challenge is to satisfy the ultimate customer needs while still recognizing the challenges of institutional integration. For example the growth of "community banks" in the U.S. shows that customers want personal service and have concerns that large banks treat them "institutionally". Customer service surveys show that large banks that make major strides in addressing customer needs have benefited financially while other banks have discovered the downside to over-zealous cost savings, for example spending millions to correct the problems associated with sub-par customer service.

In the context of these dynamic market changes, these are the facts every marketing professional understands:

- There are more and more competitors in your market
- Your competitors are constantly changing their business models and value propositions
- Your customers can access massive amounts of information, making them aware of their options, the service differences, negotiation power and therefore increasingly fickle behavior
- At the same time, consumers' appetite for products and services continues to change and grow.

Your competition and customers will continue to increase in sophistication. Marketing must do so as well if it is to serve this new environment and help the bank compete and win. This means its role

must evolve. Marketing must become an *investment advisor* to the business. As that investment advisor, Marketing must support:

- The overall investment strategy—what is offered, where, and to whom
- The strategic path for maximizing the return on assets (ROA)
- The cost justification for the operational path required to get there (i.e., support of return on investment (ROI) numbers for scarce marketing dollars).

Marketing must be present in the boardroom, offering business and market analysis coupled with financial analysis. It must connect the dots among strategic objectives, operational execution, and financial criteria. It can provide the necessary alignment between strategy, operations, and finance.

Marketing must overcome three important barriers to provide this alignment and become an investment advisor. Each barrier underscores the need for information sweet spots, greater accountability, and more integrated decision-making.

#### **Barrier 1: *Defining the “size of prize” has become more complex***

In the days of homogeneous mass markets, traditional banks assessed value based on market share of major product lines, counting on economies of scale in marketing spending and healthy margins to deliver profits. More recently, the challenge evolved from mass markets to defining and improving customer profitability. Businesses began to allocate costs at a more granular level to better evaluate customer and product performance. Many banks have successfully developed this information sweet spot and now can group customers into meaningful segments. Today, this trend is evolving as customer requirements and characteristics are divided into smaller and smaller micro-segments, which requires organizations to become responsive to the needs of more and more customer categories.

Size-of-prize marketing requires the company to do two things well. First, it must pool customers into meaningful micro-segments that are cost-effective to target, acquire, and retain. Second, it must determine the profitability potential of these micro-segments in order to set company priorities. These profit pools allow Marketing to recommend the best investment at product/service/segment levels. This is of particular relevance when considering different channel strategies: the more detailed the understanding and mapping of micro-segment profits, the more the marketing and sales propositions can be refined.

#### **Barrier 2: *Lack of integrated and enhanced information***

Without appropriate context (*where, who, when*), Marketing can't define or analyze a micro-segment. Without perspective (comparisons), Marketing can't define market share or track trends at this more detailed level. As an investment advisor, Marketing must merge three core information sources: customer (operational), market (external), and financial. To leverage large volumes of customer and product data, the information must be structured thoughtfully and integrated cleanly. Marketing's judgments and assessments must be supported by the capability to categorize, group,

describe, associate, and otherwise enrich the raw data. Banks need easy, fast, and seamless access to typical market information such as trends by market categories, geographic locations, account types, channels, and competitor performance. They also need financial information from the general ledger and planning sources to understand the cost and revenue potential in order to place a value on each micro-segment.

### Barrier 3: *Number-crunching versus creativity*

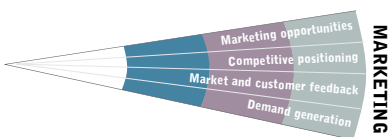
Businesses create marketing strategies to win customer segments and the associated “prize.” Marketing’s work now really begins, and it must justify the marketing tactics it proposes, set proper budgets, and demonstrate the strengths and limits of those tactics. Drilling down into greater detail and designing tactics around this information will help satisfy Finance’s requirements. In the past, such detailed design has not been the marketing norm, but it is required to generate the ROI that Finance wants to see. However, the right information is not always easy to get, and some departments contend that good ideas are constrained by such financial metrics, stifling the creativity that is the best side of Marketing. Marketing’s traditional creativity should not abandon finding the “big idea,” but must expand to include formulating specific actions with a much clearer understanding of *who*, *why*, and *size of prize*. This is not a loss of creativity, but simply a means to structure it within a more functional framework.

### A Guidance and Early Detection System

As investment advisor, Marketing guides strategic and operational activity, which focuses on the potential of specific markets and how the organization can meet these markets’ needs. In this role, Marketing can also be an early detection system for how changes in the market lead to changes in products and services, selling strategies, or even more far-ranging operational elements of the business.

Many marketing metrics are important indicators for a bank’s scorecard. Sudden drops in customer satisfaction should alert marketing to limitations in its traditional marketing efforts and could mean competitor pressure, market shifts, and/or revenue trouble down the road. Good marketing departments see the big picture. They notice and interpret trends that are not readily apparent on the front line and provide the business context for what is being sold, or not, and the associated value proposition.

Marketing has the responsibility for defining, understanding, and leading four core areas of the bank’s decision-making:



- **Marketing opportunities** → What is the profit opportunity?
- **Competitive positioning** → What are the competitive risks to achieving it?
- **Market and customer feedback** → What external verification process will enhance and confirm product and service value propositions?
- **Demand generation** → How do we reach and communicate value to customers?

**Marketing Opportunities**

Making decisions about marketing opportunities is a balancing act between targeting the possibility and managing the probability, while recognizing the absence of certainty. This decision area is fundamentally strategic and concerned with the longer term. It manages the upfront investment and prioritizes the most promising profit pools while dealing with a time lag in results. Increasingly Marketing is looking into value propositions that reflect different life stages and business cycles. Marketing is looking to pre-

package new solutions defined by a customer’s financial planning needs and not simply a single product or service requirement.

Understanding the profit potential in such opportunities requires a detailed assessment of pricing, cost to serve, distribution requirements, product quality, resources, employees, and more. The most obvious market opportunities have already been identified, whether by you or the competition. The creative use of derivatives and capital markets will drive new solutions (see Product Management). But there are still hidden gems buried in the data missed by others. These are the micro-targets that need to be identified, analyzed, and understood.

GOALS	METRICS	DIMENSIONS
Bank Share (%)	Market Growth (\$)	Fiscal Month
Market Growth Rate (%)	Market Profit (\$)	Year
Market Income (\$)	Market Volume (#)	Quarter
	Operating Profit (\$)	Month
	Income (\$)	Industries
	Channel Income (\$)	SIC 2-Digit
	Channel Share (%)	SIC 4-Digit
	Customer Growth (%)	Marketing Areas
		Region
		Area
		Marketing Segment
		Market Segment
		Micro-Segment
		Product Brand
		Product Line
		Brand
		Banking Industry Segment
		Banking Segment
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code
		Financial Services Area
		Financial Services Area

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Product Management	Executives			*
	Analysts		*	
Sales	Executives			*
	Managers		*	
	Analysts		*	
Finance	Executives			*
	Analysts		*	

*Knowing which customers are making and losing money, and why, at the net profit level, is an essential foundation of any customer segmentation strategy that includes improving profitability as one of its goals.*

Chris D. Fraga, Chief Strategy Officer at Acorn Systems Inc.

### Competitive Positioning

Effective competitive positioning means truly understanding what you offer as products and/or services to the segments you target, and how they compare with those of other banks. As an investment advisor, Marketing must clearly define the business and competitive proposition: *In which market segments are you competing, and with what products and services?*

Marketing must define and invest in specific information sweet spots that give it insight into how its customer selection criteria compare to those of its competitors. Marketing must understand the customer-relevant differentiators in its offerings and the life span of those differentiators. In reality, these differentiators may actually be weak and linked more to the convenience of the branch network, making it important to fully understand pricing sensitivities and customer feedback (see Market and Customer Feedback). Marketing needs to ask:

- Are our price points below or above those of key competitors, and by how much?
- If below, is this sustainable given our cost profile, or is cost a future threat?
- What premium will customers pay for a service or value-added propositions?

GOALS	METRICS	DIMENSIONS
Competitor Growth (%)	Competitor Price Change (\$)	Competitor
Competitor Price Change (%)	Competitor Income (\$)	Competitor Type
Competitor Share (%)	Market Growth (\$)	Competitor Company
	Market Value (\$)	Financial Services Areas
	Sales Revenue(\$)	Financial Service Category
		Fiscal Month
		Year
		Quarter
		Month
		Marketing Areas
		Region
		Area
		Marketing Segment
		Market Segment
		Micro-Segment
		Product/Service
		Product Line
		Service Line
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code
		Financial Services Area
		Financial Services Area

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Sales	Executives			*
	Managers		*	
	Analysts	*		
	Professionals		*	
Product Management	Executives			*

*We continue to devote our resources and energy to the individual customer in our quest to be more efficient and better suited to banking in the 21st century. An integrated view of the enterprise allows us to target customers based on their individual needs, which undoubtedly gives us a competitive edge in the market.*

Tal Shlasky, Data Warehouse Project Manager, Bank Hapoalim

**Market and Customer Feedback**

The market and customer feedback decision area combines an external reality check with internal understanding of the product and service value proposition. It is an objective assessment and gap analysis into the bank’s offering and whether these confirm or challenge the internal value assessment. There are many examples of products and services that do not offer sufficient value to customers. Market feedback and external verification as part of an adjustment process are essential for success.

The insights these activities produce let the organization understand what investments are necessary for additional product or service features and determine if the business can afford them. In some cases, it may make sense to pull out of an opportunity area rather than make investments with an insufficient chance of payback. An information framework that uses this data can support and confirm product development decisions. This decision area is also a tool for creating cross-functional alignment and internal commitment to new product commercialization.

GOALS	METRICS	DIMENSIONS
Suggestion Cost (\$)	Customer Feedback Count (#)	Banking Industry Segment
Suggestion Value-Added Score (#)	Comments/Suggestions (#)	Banking Segment
Customer Satisfaction Score	Improvement Priority Score	Service Benchmarking Issues
	External Verification Score (#)	Service Category
	Implementation Difficulty Score (#)	Service Issue
	Product Awareness Score (#)	Fiscal Quarter
		Year
		Quarter

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
<b>Product Management</b>	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
<b>Customer Service</b>	Executives			•
	Managers		•	
	Analysts		•	
<b>Sales</b>	Executives			•
	Analysts		•	
<b>Marketing</b>	Executives			•
	Analysts		•	

### Demand Generation

Driving demand is where Marketing rubber hits the road. All of Marketing’s strategic thinking and counseling about micro-segments, profit potential, the offer, and competitive pressures comes to life in advertising, promotions, online efforts, public relations, and events.

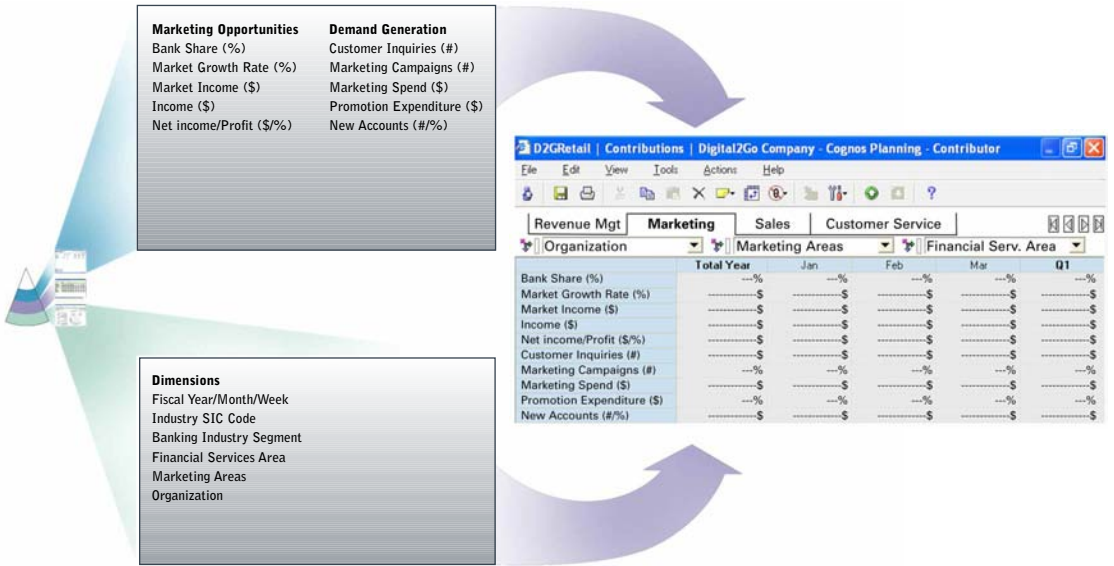
Marketing manages its tactical performance by analyzing promotions, communications, marketing campaigns, below-the-line support, internal resourcing, response rates, and cost per response. At the same time, Marketing must understand whether or not the bank is acquiring the right customers for the ideal future portfolio. This is key to understanding the results of a micro-segment Marketing effort.

Improving Marketing tactics is not simply about designing more detailed and specific activities; it also means understanding what elements work better than others. Marketing must understand the health and vitality of its various decision areas, including pricing, promotions, product and service bundling changes, and consumer communications. *What provokes a greater response? At what cost?* With a wide variety of options for online, direct response, and traditional advertising, Marketing needs to know which tools work best for which groups.

GOALS	METRICS	DIMENSIONS
Promotions ROI (%)	Product Awareness Score (#)	Fiscal Month
Customer Inquiries (#)	Marketing Campaigns (#)	Year
Demand Effectiveness Index (#)	Marketing Spend (\$)	Quarter
	Customer Penetration (%)	Month
	Customers (#)	Marketing Areas
	Households (#)	Region
	Household Penetration (%)	Area
	Qualified Leads (#)	Marketing Method
	Promotion Expenditure (\$)	Marketing Method
	Incremental Income (\$)	Marketing Segment
	Qualified Leads (#)	Market Segment
	New Accounts (#/%)	Micro-Segment
		Marketing Campaign Projects
		Marketing Campaign Type
		Marketing Campaign
		Product Line
		Product Line
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code
		Weeks on Promotion

Understanding and analyzing this information is key to alignment and accountability. Driving demand requires close alignment with Sales, and Marketing tactical teams continually fine-tune their aim and selection of tactical “arrows” until they hit the bull’s-eye.

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Sales	Executives			*
	Managers		*	
	Professionals		*	
Customer Service	Executives			*
Finance	Executives			*



*The Marketing Opportunities and Demand Generation decision areas illustrate how the Marketing function can monitor its performance, allocate resources, and set plans for future financial targets.*