How New Acquisition Strategies Contribute to Revenue Growth

Background

In the wake of Regulation E and its impact on checking revenue from overdraft fees — and with the full effects of the Dodd-Frank Act yet to be determined — financial institutions are taking a closer look at how they do business with account holders.

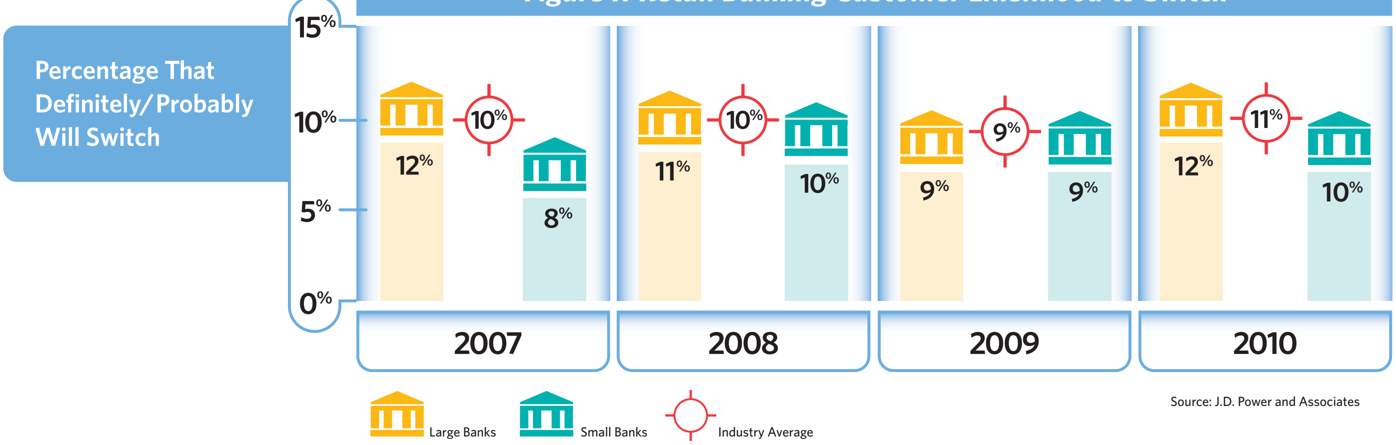
Some areas being examined are the number and type of account offerings, various pricing strategies and the make-up of account holder portfolios. Such efforts serve to support the primary means by which institutions can fill the fee income gap created by recent regulatory changes: building and retaining high-value relationships with account holders.

One approach that incorporates all these factors is attracting and engaging the "right" consumers through targeted acquisition strategies that help generate new households, accounts and core deposit balances. Financial institutions have a timely opportunity at hand as the need to increase revenue and rethink acquisition strategies converges with current market conditions.

Opportunity

According to a recent J.D. Power and Associates report, the *2010 U.S. Retail Banking Satisfaction Study*, loyalty among retail banking customers has continued to decline for the fourth year in a row. The report indicates the image of banks has continued to decline as well, with customers perceiving banks as being more profit driven than customer driven.[1] Also in 2010, the percentage of customers who say they are likely to switch banks during the next 12 months has risen to levels last seen in 2007 and 2008 (see Figure 1).

Figure 1: Retail Banking Customer Likelihood to Switch



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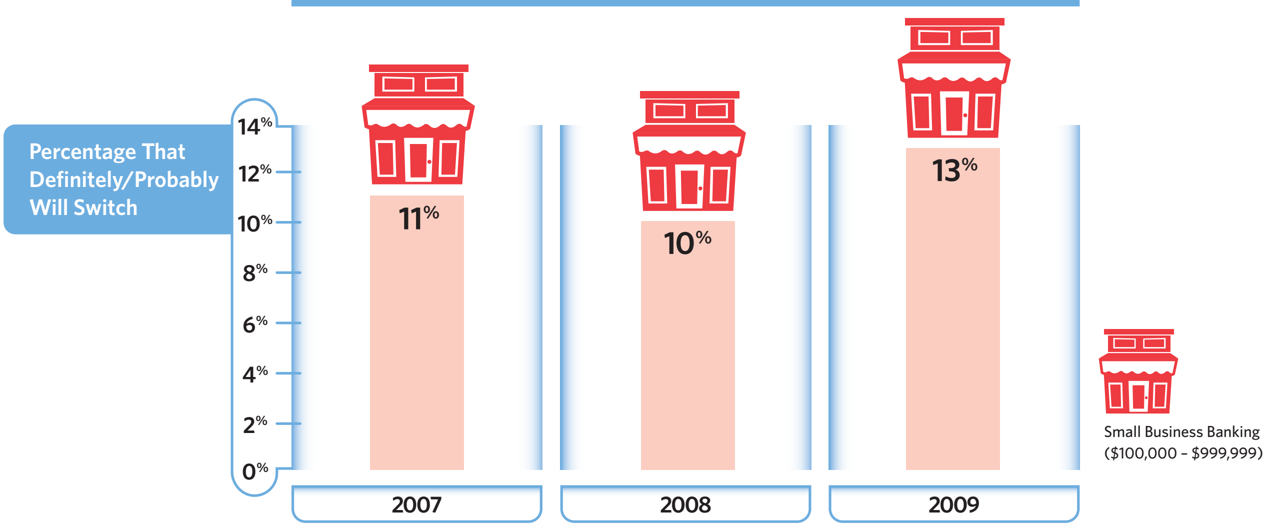
Small businesses also represent a prime market opportunity. According to Novantas research, the average small business provides financial institutions with an annual net profit of more than $600 for just the business, and more than $1,000 when considering the personal banking done by a business's owners and officers. On a lifetime value basis, this equates to more than $4,000 for the business only, or close to $7,000 when including personal banking. In general, small businesses, including personal banking, typically reflect 40 to 50 percent of a financial institution's total retail profits.

Additionally, J.D. Power and Associates' 2007-2009 *Small Business Banking Satisfaction* studies indicate that the likelihood of small businesses with revenue between $100,000 and $999,999 to switch banks rose to 13 percent in 2009 (see Figure 2).[2] The reduced commitment is likely in response to the pullback in lending during the recent economic downturn.

With more consumers and businesses exhibiting a higher likelihood than in previous years to switch financial institutions, now is the time to strategically target these potential account holders with smart acquisition strategies.

Figure 2: Small-business Likelihood to Switch



Source: J.D. Power and Associates 2007-2009 Small Business Banking Satisfaction Studies℠

Recommendations

Marketplace competition to acquire new account holders can be intense. To move your efforts toward success, consider implementing the following components of effective acquisition strategies:

- **Think forward — and act now.** Use existing industry models of the prospects your institution seeks, and begin communicating with these prospects to drive accounts. Simultaneously, build a plan for custom models to support subsequent mailings that more specifically target increased relationship value. For this phase, utilize profiling to determine what qualities the most valuable account holders in

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your portfolio have in common, such as the propensity to carry higher balances, make use of debit cards and direct deposit, or be receptive to cross-sell offers for additional products and services. Then, design a marketing campaign targeting consumers with those characteristics in your institution's primary market area — a geographical zone that goes beyond a simple radius and aligns mail file selection with areas from which new households are actually drawn.

- **Focus on engagement.** Acquisition is the starting point, but to increase relationship value engagement is critical. New account holders should receive communications through a well-thought-out contact program that consistently provides a relationship-based message, articulates your value proposition, and offers a simple set of services such as direct deposit, signature debit card transactions, and online banking programs.

- **Include small businesses.** Many small-business owners feel disenfranchised due to the lack of available credit in the current market. Some business areas to target with acquisition strategies are professional service providers who are heavy deposit users with high transaction activity. Much like consumer account holders, small businesses deliver significantly greater return when they receive engagement communications. Our experience with small-business engagement has shown a 5 percent decline in attrition during the first year of the relationship for small businesses included in a multi-touch engagement process. In addition, small businesses contacted for engagement had a 12 percent greater incidence of purchasing personal accounts.[3]

For more information about how targeted acquisition strategies can help your financial institution find the right account holders for its portfolio, contact your Harland Clarke account executive or visit www.harlandclarke.com/contactus.

[1]J.D. Power and Associates, *2010 U.S. Retail Banking Satisfaction Study*, April 2010
[2]J.D. Power and Associates, *2007-2009 Small Business Banking Satisfaction* studies
[3]Harland Clarke client research and campaign results

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