Harland Clarke Webcast – 05-19-16

Opportunity Analysis: Using Data to Build a Better Marketing Plan

TRANSCRIPT

Presenter: Stephen Nikitas, Senior Strategy Director, Harland Clarke

Presenter: Michele Stevens, Senior Vice President of Advertising and Marketing at First Financial Bankshares, Inc.

Presenter: Tara Holloway, Assistant Vice President, Marketing and Research at Teacher's Credit Union

Jeb: Good day, and welcome Harland Clarke's webinar, Opportunity Analysis: Using Data to Build a Better Marketing Plan. This webinar is being recorded and will be provided to you along with the presentation recording and deck within a few days. If you have any questions, please use the chat box located in the webinar control panel. Your questions are private, and are only seen by the presenters. You can send in those questions at any time, and we'll also have Q&A at the end. I'd now like to turn the call over to Steve Nikitas, our Senior Strategy Director at Harland Clarke. Steve, you have the call.

Stephen: Thank you very much, Jeb, and good afternoon, everybody. Welcome to yet another Harland Clarke webinar, and as you heard Jeb mention, and of course, as you all know, this one is going to be about the opportunity analysis, and using data to help you build a stronger, better, improved marketing plan. As Jeb mentioned, I will be facilitating today's webinar. I am a Senior Strategy Director with Harland Clarke. I've been with Harland Clarke now for a bit over five years. I come out of the banking world where I had 30 years of experience in the retail operations and marketing areas of financial institutions in New York, California, and Massachusetts.

My role here at Harland Clarke is to help financial institutions to look at ways that they can grow their office and their audits and their bond portfolios, as well as enhance their customer or member service. We're fortunate today in that we have two special guests with us, Michele Stevens, and Tara Holloway, and I will say, before I bring Michele and Tara in to introduce themselves, we're fortunate today because both Michele and Tara have been on the receiving end of opportunity analysis in the past. Michele and Tara are here to share with you insights on their experience with an opportunity analysis. With that said, Michele, would you take a moment to tell our guests a little bit about yourself.

Michele: Sure, Steve. I'm Michele Stevens, and I'm Senior Vice President of Advertising and Marketing for First Financial Bankshares, Inc. We are a publicly traded, almost $7 billion company in Texas. We've got 69 locations across the state, quite a rich heritage. We have been in business more than 126 years.

Stephen: Thank you very much, Michele. Tara, would you take a moment to do the same?

Tara: Sure. I'm Tara Holloway, Assistant Vice President, Marketing and Research at Teacher's Credit Union. We are the largest credit union in the state of Indiana. We have 56 branch locations that go statewide, and we're about $3 billion in assets. We are a community-chartered credit union, and our roots are with teachers and school employees, but we are not community chartered within the state of Indiana.

Stephen: Super. Thank you very much, Tara. This is going to be, I think, very important for everybody on the phone today because we've got Michele coming out of the banking world, and we've got Tara coming out of the credit union world. We're going to be able to provide perspectives from both charter types of financial institutions throughout this presentation. With that, let's go to our next slide and talk about – well, let me show you what we're going to talk about of the course of the next hour.

We'll start by taking a look at the market. I will share with you some information on latest trends, and then from there we'll segue into a discussion about the opportunity analysis. We'll talk about, how you put the data from an opportunity analysis to work for you. We'll have a discussion on what we call the ultra-segmented marketing approach that an Opportunity Analysis will provide, and then we will, from there talk about how an opportunity analysis is used to help financial institutions to both develop and then subsequently implement a strategy.

Then, I'm going to ask both Michele and Tara to help me wrap up this presentation with some information on their experiences with an opportunity analysis. Throughout today's presentation, I'm going to have Michele and Tara respond here and there as we go through slides and share with you information on how they've seen certain things relative to the market, and how certain aspects of an opportunity analysis helped them.

Now this is a great time to go through this presentation. We're just about halfway through 2016, hard to believe we're already there, but almost half the year is behind us. If you have objectives, initiatives that you're looking to implement this year, an opportunity analysis and the information that it provides can certainly help you. At the same time, we're getting closer to, if you can believe it, 2017 planning, 2017 budgeting. Again, a great time, a very fortuitous time for us to have this conversation about an opportunity analysis because when planning comes about, just around the corner, if you can believe it; when we are in that planning and budgeting mode, an opportunity analysis can certainly help you. We'll talk about the many ways it can as we go through this presentation

With that, let's go to our next slide. Here, I want to show you the results of a recent survey that was done among both banks and credit union CEOs throughout the US. The question posed to CEOs was what are your objectives for 2016, and those objectives appear in the green bar, and what were your objectives for 2015? Those objectives appear in the blue bar.

Let's take a look at the top half of this slide. The top half of this slide is the – represents the responses of those bank CEOs, who responded to the survey. As we go left to right, you can see certainly commercial activity is key among bank CEOs, but in the shaded bubbles that you see, lots of focus on mortgages, retail mortgages, in fact, even more focus on growing the mortgages portfolio in 2016 than 2015.

As we continue to go left to right, lots of focus on consumer loans increasingly from last year, and the same thing when it comes to growing consumer key income, more focus among bank CEOs this year than last. Michele, I'm going to ask you, if you don't mind, if you would come in, and from a banking perspective and at First Financial Bank, do those objectives pretty much line up with what you're looking at?

Michele: They do, Stephen, and especially as it relates to retail mortgage and consumer loans. Those are really, really two heavy focuses that we have had both years, 2015 and 2016.

Stephen: Great. Thank you, Michele. On the bottom half of this slide, let's take a look at the credit union objectives. Starting all the way over on the left-hand side, we see roughly three out of every four credit union CEOs say their focus for 2016 is notably to grow the consumer loan portfolio, a little bit down from last year.

As we continue to go through the bar charts, we see a focus on mortgage loans; roughly four out of ten credit union CEOs say that that's what they're going to focus their energies on. Then a little further to the right, just like we saw on the bank side, we see the same focus when it comes to consumer fee income; on the credit union side, up above 500 basis points from 2015.

Tara, do you see anything on this slide, from a Teacher's Credit Union perspective that looks a little bit different, or do these pretty much align with your credit union's objectives for 2016?

Tara: Looks like you've talked to my CEO on this one. It's definitely in alignment.

Stephen: Great, all right, thank you, Michele; thank you, Tara. Let's go to our next slide. On our next slide, let's start talking about market trends and what we can expect. We look at the left-hand side of this slide, no surprise. The expectation from Freddie Mac is that the refi market is going to continue to drop. We saw that start about a year ago when the Fed started raising interest rates. The expectation is we'll continue to see a declining demand for refinances. We saw in the news this morning the minutes of the last Fed meeting. There's an expectation that the Fed will likely raise rates again in June; if not June, likely July. That market is going to continue to be challenged.

On the right-hand side, however, we see the expectation that new home sales will continue to grow. Things are a whole lot different today than they were eight years ago as we ended the 2008 recession, and we saw home purchases literally fall off the table; things on the home front coming back slowly but surely.

Take a look at the next slide, some more market trends, and on the left-hand side we look at what's going on in the auto world. Auto lending has really, really been tremendous over the last handful of years. If you'll look at this particular bar chart, you can see how auto lending was, in fact, and going into the recession of 2008, literally, auto sales fell fully by a third. Since 2008, 2009, things have been really roaring back in the auto sales and for many on us, on the phone, the auto lending world.

Lots of reasons for that, but among other things we know there's a lot of pent-up demands. The average age of a car on the road today is approaching 12 years. Never has it been that high before, so consumers are getting a little bit long in the tooth with their current car, their current truck; increasingly are looking to replace that so lots of opportunity there.

The same thing on the unsecured loan side of the house, both credit cards and unsecured signature loans, increasing demand for those types of products. I know in my role as a strategist, I've seen over the past few years, whilst home equity lending has been challenged, lots of consumers are turning to unsecured personal loans for those low dollar amount loans that they need to maybe go on vacation, maybe do some updates around the house. All in all, unsecured loans being a resource in lieu of the fact that in some cases, my home might not have had the equity that I needed in order to use it as a resource for a home equity loan or a home equity line.

We see where the opportunities are when it comes to lending. Let's take a look at why growth may not be so easy as we think; lots of challenges out there, lots of challenges. We see the consumer continuing to clean up their balance sheet. We see the stock market and the economy continuing to wreak havoc. I looked at the stock market a little bit ago, and the market was down almost 200 points, so probably a whole lot of American consumers feeling a whole lot less wealthy these days than they did a year or two ago.

We also see increasing competition from peer-to-peer lenders and Intex. It seems increasingly now nary a day goes by where we don't read something about Lending Tree, Fosphor, or some of these new syntax, who are taking advantage of the ease and convenience of getting credit cards to American consumers. That's a market that's expected to grow dramatically over the next several years.

We've talked about the mortgage purchase reveres refi area, and also there's an increasing demand for leases these days. The average price of a car these days is well above $25,000. In many cases, it's become unaffordable for consumers to afford to buy a car, and leasing has become a viable option for many, many consumers. There are opportunities out there. We do see new home sales increasing. We just talked about the increase in auto sales and the demand for personal loans.

Unemployment continues to remain low, or at least we think it remains low. As people start jobs, there will be a demand for cars. There will be a demand for new homes, and of course, we see increased reliance on relocations as people get jobs. That means that there is an opportunity for us out there to maybe put checking accounts in front of our consumers.

The solution to all this is lots of challenges, potentially lots of future downturns with what may take place in the market, what's going to happen with the Fed as they finally start raising rates, but our goal is to look for ways to maximize those up swings. Let me stop here for a moment. Michele, when we look at those challenges, opportunities, and Tara, anything different or anything that you'd like to add to that from what you see in your particular markets? Let's start with Michele.

Michele: I would agree with these, Stephen. Being in Texas, we have been very, very fortunate not to have had the severe ups and downs as other parts of the country have had. Yeah, I agree with both the challenges and the opportunities.

Stephen: Great. Thank you. Tara, you're in a whole different part of the country from Michele. Michele's in oil country down in Texas. You're pretty much somewhere in the midwest, in Atlanta. I don't know if I consider you east or midwest, but what do things look like in Indiana, in your market blueprint?

Tara: We definitely are in that midwest area. Honestly, we have such a heavy reliance on manufacturing that we have reemerged, and our unemployment rate has really had a positive impact based on that and overall growth. We're definitely seeing some of our consumers, or members come out of the rubble, per se, and want to have more conversations around lending and how that can help them reach some of their goals. We are definitely seeing more of that.

The competition on here, that one really resonated with me. We have a ton of competition in our market, as everyone else, but it just seems like more and more are popping up. Staying ahead of that is a little bit of a challenge too.

Stephen: Yeah, lots of nontraditional competition, and I think for many of us in the banking world, we're trying to come to grips with how do we respond and react to all of that. That will be a challenge, certainly, going forward. Great, thank you, Tara.

What's the elixir, or what are the ingredients to addressing some of these challenges and opportunities? I really love this slide. It's titled Strategic Marketing Approach, and to me, if you start at 12 o'clock on this particular slide, it really bears out the steps that we, as marketers and retailers, really need to be focused on when it comes to addressing the challenges, but certainly taking advantage of the opportunities. It starts with research.

It starts with research and analytics. It starts with understanding our markets, understanding our account holders, customers, whether we're a bank; members if we're a credit union. It's also looking at where those opportunities are organically in order to create a strategy that will be effective. Let's face it: as marketers, and in my former life as a marketer, I never had enough money in my budget to do all of the things I wanted to do. I'm sure many of you who are on the phone today probably feel the same way.

We really never have all the dollars and cents available to us in order to do all the things that we believe that we can accomplish. Starting with research, utilizing analytics, looking inward at our account holder base is a great way to make sure that we are able to stretch our marketing dollars as efficiently as we possibly can in order to make sure that, when all is said and done at the end of the year come December 31, we've accomplished everything that we wanted to accomplish but most implicitly, we've helped our financial institution to achieve all of its goals, objectives, and, of course, all the metrics that are put in front of us.

Part of this is because once the strategy is developed, that goes hand-in-hand with the development of creative, regardless of what type of campaigns we implement, whether they be direct marketing campaigns, advertising campaigns, PR campaigns, but strategy and creative certainly go hand-in-hand, and then it come down to execution. I know that execution can be a challenge for many of us because again, we often times don't have the resources in place to really put into play all those things we want to do.

Then, lastly, it's measurement. It's all these inspecting what we expect. I can't stress enough how important it is in this particular continuum to make sure that after everything we do, we come back and we inspect what we expect. We measure our results so that as the process starts all over again, on this chart at 12 o'clock with research and analytics, we're able to utilize what we learn from our measurement and put it to good use so that going forward so future campaigns are even more effective than the campaign that we just completed.

Let's go from there, and start talking a little bit about the opportunity analysis and data. On our nest slide, I love this slide, Preventing Paralysis from Analysis. I can't speak for you on the phone, but I know in my former life, sometimes we just get so flooded with data and information that we just don't know where to start. The easy solution is to just go nowhere. A key benefit of an opportunity analysis is to help you overcome that potential paralysis so that we are able to go forward with what we believe based on the data that we have been presented are the best opportunities for our financial institution.

I when look at an opportunity analysis, there are really four key points that need to be stressed on this particular slide. First off, an opportunity analysis is going to provide your financial institution with insight and information on your existing client portfolio. It will take a look at your existing account holders and identify the opportunities and risks that your existing portfolio of customers and members presents.

Another key point of an opportunity analysis is that it will do a deep dive into your product analysis, and we'll show you a little bit of that in a moment. It will do a deep dive into your product penetration, into your product balances. It will compare you to an industry that Harland Clarke has comprised to show you how your financial institution compares to peers and others in the industry.

Now, we all know how our institution is performing. We know that by taking a look at our balance sheets, and our income statements, and those key metrics that we're measuring on a day in, day out basis, but it can be critically important to know how we are compared to our peers and others in the industry. That's the key benefit of point number three.

Lastly, a benefit of an opportunity analysis is that when all the data is presented, and let's face it, data is data, and it is only as good as what you do with it. At the end of an opportunity analysis, what will be presented to you are recommendations based on best practices for whatever institutions do with the data that's provided to them so that you have an action plan put in front of you, and so that in effect, you are not paralyzed from all the analysis that comes to you through an OA.

Of course, measurement is a key part of the opportunity analysis, and in many cases an opportunity analysis is presented either annually or every other year to financial institutions so that they are able to compare the performance of their portfolio from one year to the next or every other year in order to see how the financial institution is improving and strengthening its overall performance.

Now on this particular slide, there's a bunch of information that you see on the bottom of this slide, things like Stratics in the industry database. We're going to talk more about Stratics in the industry database in a little bit. Before we do that, let's go to our next slide and talk a little bit about, on this next slide, about what those six key components of an opportunity analysis are.

Let me go through these very quickly starting with value segmentation at 12 o'clock. Coming out of an opportunity analysis is going to be a dive into segmenting your account holder base into one of seven different either customer value segments if you're a bank, or member value segments if you're a credit union. Those value segments will show you who your customers are, who show a likelihood to attrite some financial institution, as well as the propensity to buy more product and service from you.

A benefit of the value segmentation is that you'll see who your best product opportunities are. Then, again, as we try to stretch our marketing budgets as far as they can go, we're not spending marketing dollars on customers or members where there's no propensity for the product or service we're looking to promote. We are only identifying those customers, the members where we know the best return exists.

As we go clockwise on this chart, we're able to show you attrition to an opportunity analysis. Through the value segmentation, show you those account holders, who show a likelihood to attrite from the institution. Now, attrite could mean draining balances, or attrition could mean out-and-out closing their accounts with your institution and moving on to another financial institution.

A key component, attrition measurement, allows you to stay ahead of those customers, who show a likelihood that they may move on in order for you to craft marketing campaigns, and put products and services in front of those account holders, in order to deepen your share wallet and product relationship with them.

The product assessment, as I intimated early on, will show you you're product penetration and average balances, and compare that information to the Harland Clarke benchmark, which we'll talk a little bit about later on.

We often get questions about how effective are my acquisition campaigns. The new account holder segment, or the new account holder assessment that's provided through an opportunity analysis takes a look at your new account holders. Those account holders, who have been with you for up to one year to show you want kind of relationship they have with you, and of course, compare that to the Harland Clarke benchmark.

Not only will an opportunity analysis take a deep dive into your existing customer or member base, but a benefit of an OA is that will also segment out your new customers so you can see how the after-effects, if you will, of your acquisition campaigns and show you truly how engaged those new customers and members with you are. Of course, as we've talked, and we'll talk a little bit more about it in a moment, the performance bench-marking. We'll compare your numbers to a Harland Clarke database.

Then lastly, it's strategy and measurement. An output of an opportunity analysis is providing you strategy on what to do with all the data that you receive in order for you to craft marketing campaigns. Of course, when all is said and done, providing the tools to help you measure the effectiveness of those marketing campaigns.

Let's go to our next slide. On the next slide, let's talk about that industry benchmark that I've been referring to a little bit here. On a regular basis, Harland Clarke receives core data from dozens of financial institutions around the country, both banks and credit unions. That information makes up what we call the benchmark that's used in an opportunity analysis That benchmark comprises some 55 million households, 132 million accounts, better than $1 trillion in loan and deposit data. It's a fresh benchmark That data we receive from those financial institutions comes in on a quarterly basis. The information to which we compare your institution to is current data, so data that is relevant to your particular numbers.

Now let me show you some of the output of an opportunity analysis on the next slide. So as we mentioned, we're going to show you product penetration. This is an example of one of the slides that we will show you in an opportunity analysis. This is looking at your deposit penetration starting with checking on the left-hand side. On this particular slide, your financial institution's numbers would be in the blue bar. The benchmark would be in the green bar. In this particular case, as you can see all the way over to the left, this institution has household checking penetration of almost 77% compared to the benchmark of just about 74%.

As we go left to right, you can see again in this example, this institution falling a little bit below benchmark when it comes to money market penetration, IRA penetration, savings, investment penetration, and CD penetration. Again, I know how my institution is performing, but I'm always curious about how do I compare to my peers. How do I compare to other financial institutions around the country? Here's a snapshot.

On the next slide, we do the same thing when it comes to your credit portfolio. Here, we're looking at your key credit products starting with auto on the left-hand side. With auto, not only are we looking at your direct auto activity, but we're also looking at your indirect activity; mortgage, equity lines, equity loans, consumer. One of the components we also look at is credit cards. In this case, we don't show that example. If you're a bank or a credit union, that does portfolio with credit card products. We certainly can show that information here.

Now, not only are we showing household penetration, but there are also slides in which we're going to show you average balances and of course, compare your average balances on both the deposit and the credit side of the house to the benchmark.

Then another slide I want to show you when it comes to penetration is in our next slide, and this is engagement services If you look at the x-axis on this chart, we measure online banking, bill pay, and debit card penetration. Why? Because we feel these particular services, particularly bill pay can be an anchor to your financial institution on the account holders. Just like we know a checking account or a mortgage often times signifies PFI status among account holders, we find increasingly that account holders who are engage with these particular products often times will consider that financial institution to be their PFT. In fact, we know that consumers who are actively engaged with online or digital services as well as debit cards typically have more products and services as well as balances in that institution. Just some samples of what you'll see in an opportunity analysis.

Let's go to our next slide, and on our next slide, we're going to take a look at attrition. As I mentioned, with an opportunity analysis we're able to identify account holders who show a propensity to attrite. On this particular slide, what we're showing is attrition by tenure. This represents account holders who have left the financial institution for one reason or another. Again, your financial institution on the blue line, the benchmark on the green line, and this particular slide measures attrition by tenure. We also measure attrition by account relationship.

I've worked with some financial institutions in the past where we have used attrition information to craft direct marketing campaigns in order to stem the likelihood that an account holder will leave. We've used our Stratics propensity model in addition to identifying attrition, in order to put a relevant product or service in front of that particular account holder who shows a likelihood to attrite. Those campaigns are very effective because we're reaching out to account holders who may have one foot out the door, for one reason or another, but we're reaching out to them with a product or service that they show a propensity for. We know that our message to them is relevant and hits a chord.

Let's go to our next slide. On our next slide, here's where we compare your – a little bit of a deeper dive comparing your particular customers to the benchmark. In this case, we're showing you an example where we're looking at new customers, new customers, for example, for your institution on the left-hand side, the industry benchmark of new customers on the right-hand side. As I mentioned earlier when we look at new customers or new members that do this sort of analysis, we're looking at account holders that have been with you for up to a year.

Let me point out some things on the left-hand side here. Number of households – we'll take this very quickly from the top. In this sample case, 26,100 new customers or new households who've joined this institution over the last year. The percent of new customers to all households, 13%. We're able to compare that to the benchmark on the right-hand side where the benchmark percentage of new households compared to new households is 8%. What do we learn from this? We know we've done a great job of acquiring new households.

As we go down a little bit, let's take a look at average banking relationship. The average share of wallet among new customers in this particular institution's case is $30,800 combination of existing deposit and credit relationships. When I go to the right-hand side and I compare that to the benchmark of 18-2, you can see that this particular institution has done a great job of acquiring share of wallet. Underneath that, if this particular household has a deposit relationship with you, it's 32-9. If they have an outstanding loan, the average balance is $7500.

You can see as I compare that to the benchmark on the right, deposit relationship far exceeds the benchmark. Somewhere along the line, they're bringing people in with maybe a CD or checking promotions or maybe money market. On the credit side, they're not bringing in the balances that the benchmark is bringing in. We look at average number of accounts per household, of course, average number of accounts is not only deposit and credit products but also in this case includes the three engagement services, online baking, bill pay, and debit cards. We also can break this out, and that's become standard operating procedure where we show the average number of accounts per household reflecting only balance-carrying products.

Drilling down a little bit deeper, we do some appendings. We have a resource where we're able to append average age, average household income, home ownership, and compare that to the benchmark. Then we get into the product information where we start with deposits, and we drill down a little bit deeper and look at credit products. In this case, checking penetration among new households, 66% with an average balance of $5300. Compare that to the benchmark of 59%. This institution is doing a bit better of a job in getting new customers to obtain a checking account. We look at the engagement service penetration per household and compare that to the benchmark, and we do the same for savings, money market, CD, IRA and investments products, showing household penetration as well as balances. Of course, that is compared with the benchmark on the right-hand side.

Finally, we show you credit penetration starting in this case with credit cards, where you see that 13% of the households has a credit card with this particular bank or credit union with an outstanding balance of $4300, compared to the benchmark of 3.8 % with an average balance of $1800. Consumer loans usually represent or will represent unsecured signature loans, boat loans, RV loans, etc.,. any type of installment loan, both direct and indirect auto, home equity loans, lines of credit in loans and lastly, mortgages.

That’s a deep dive that will show you in an opportunity analysis. In this case, it is for new customers or new members, again, those folks who have been with you for up to a year. We also go through the same exercise with existing customers or members. Let me stop here, and I’m going to ask Michele to come back in for a moment. Michele, you’ve gone through a handful of OAs now. When you look at this slide for both new customers and/or existing customers, is there anything that you find particularly helpful here?

Michele: Yes, Stephen. Matter of fact, this is one of our most important slides that we pay attention to because we definitely want to know how we compare to industry. It very clearly will show you what your strengths and what your weaknesses are. Some of them you may know or understand, for example, if you typically pay lower rates on deposits, well that could impact these numbers. The other way we like to use it is whenever we have an acquisition, we like to compare the data both to the industry but also to our existing customer base prior to that acquisition. That gives us a very clear idea of what we need to do in markets that are new to our bank.

Stephen: Great, thank you very much. Tara, you went through an opportunity analysis about a year, year and a half ago. Again, relative to either new customers or existing – or I should say, new members or existing members, anything on these slides that jump out at you or that prove to be helpful?

Tara: This tool has been one of our strategic advantages from the marketing side especially. It gives us everything on this page to make a very intentional decision about where we're going to spend those marketing dollars. Within our organization and I'm sure many others, sometimes this information is all available, but it's in lots of different places. What I find most valuable about this is it is one tool that has all of the information that we need to make those intentional decisions in one place with very actionable next steps, and measurements, and all of those components. It's such an easy read the way it's laid out; it allows us to see the whole picture.

Stephen: Great. Thank you, Tara; thank you, Michele. Let's go to our next slide and talk about Stratics. You've heard me mention Stratics, our propensity model that we use for helping to identify the likelihood that customers or members are going to buy a particular product or service. Stratics is based on some 600 actual banking behaviors. There are a small number of attributes that are demographic related, primarily around income, home ownership and age. Stratics is really built around how your customers or how your members are banking with you. From that information, we're able to identify propensities for products and also likelihood to attrite. Stratics can be used for both retail banking as well as small business portfolios as well.

Let's go to the next slide. A little bit more information on Stratics and let's focus on the top part of this slide, looking at retail and how Stratics is used in the retail world. Again, with Stratics, we're able to identify purchase potential. If you look on the left-hand side, it's virtually every account that you or every product that you sell, from checking through life insurance and mutual funds. I work with dozens of financial institutions who have employed Stratics to conduct checking campaigns, auto campaigns, identify customers or members who show a likelihood for a home loan type product. Maybe a financial institution wants investment advisory services, and so we help financial institutions identify account holders who show a likelihood for an investment advisory relationship.

With Stratics, we're also able to identify next most likely products. Looking at the first, second and third most likely products as well as attrition, as we talk about. As I mentioned earlier, I help financial institutions based on the opportunity analysis show attrition problems in order to reach out to those particular account holders. We've used the next most likely product module and when we reach out to customers or members who show a likelihood to attrite, we're putting in front of them their next most likely product, based on their banking behavior, in order to strike a chord that will resonate with them and ultimately get that particular customer or member to purchase more product or service from you. Lastly, under the retail umbrella, we talked about the customer value segments, which we'll go into in a little bit. As I mentioned, we can use the opportunity analysis for your small business marketing endeavors as well.

Let's go to the next slide. On the next slide, here's where we talk about the customer value segments. Let me ask you very quickly to focus on the diagram on the right-hand side, and I'll start in the upper right-hand corner. With Stratics, as I mentioned, we're able to take a look at your account holders who show a likelihood to either attrite, meaning they're draining balances or ultimately on the path to toward extinguishing their relationship with you, and also identify customers who show a likelihood to buy more product from you. When I look at the boxes on the right-hand side, High Touch, so who are those particular account holders? Based on where they sit in the grid, they show a likelihood to attrite from the institution because they are on the right-hand side of the x-axis. They also show a likelihood to buy more products and services from you because they are on the north side of the y-axis.

The High Touch, the High Touch Elite, strong propensity to buy more product but also riskier account holders. Typically they are younger; they are entering those life stages where their need for more product and service is just embellished. As we go counter-clockwise, the aggressive Cross-Sell and Aggressive Cross-Sell Elite boxes, those account holders who, based on the Stratics analysis, end up in those particular buckets, they show a likelihood to buy more product and service but based on where they sit on the x-axis, they're a little bit more firmly rooted to the financial institution. Again, typically younger, just like what we see with the High Touch and High Touch Elite segments, but these customers have longer tenures with the institutions. They're real stands of the institution; they're great targets to market product and service to based on their particular propensities.

Let's continue to go counter-clockwise to Loyalty and Loyalty Elite. Who are they? They don't show a likelihood to attrite, and they don't necessarily show a likelihood to buy more product and service from you. They're typically older, they've got long tenures with the financial institution, but there are opportunities to sell products and service to them, typically checking accounts. What I usually find out of an opportunity analysis is that the account holders in those two particular buckets have turned elsewhere for checking and often times if you can put a value in a portable checking accounts in front of them, it's a great way to deepen the relationship with them.

Also with those Loyalty and Loyalty Elite folks, they make great reference targets. If you're looking to conduct a refer-a-friend campaign, because these account holders are really stands of the institution, they make great people to target a referral campaign; bring in a loved one, a family member, a work associate. A referral campaign based around those two buckets are typically very successful. Then lastly, all the way over in the lower left-hand corner, the Relationship bucket. Typically strong deposit balances with the institution, usually the strongest but also a very risky clientele. These are customers who have deep balance penetrations with you. They are customers and account holders who we do not want to lose because if we do, we will feel it on the bottom line.

Let's go to our next slide. On our next slide, here's where we then take this information relative to the Stratics analysis and on the left-hand side, provide you with a deeper dive into what these particular account holders look like. If you cheat from the very top, there are 57,500 households in this High Touch bucket. Drill down a little bit deeper. Their average account relationship with your institution is 22-5. Drill down a little bit deeper, they've been with you for 5.9 years. They have a 2.6 product relationship with you. Some demographic information, they're 44; average income, 62-4; 7 out of 10 of them are homeowners. Then information on their deposit penetration, 83%, for example, with checking with an average balance of $7500. Further down on that particular column, their credit penetration with you. If you look a little bit deeper, their home equity penetration, 1.96 with an average home equity loan or line of credit balance of 73-4. On the right-hand side, Harland Clarke will provide narrative to help you identify where your best opportunities are with the households in this particular bucket.

Let's go to our next slide. On our next slide, here's where we can use Stratics, and I'm going to ask Tara and Michele to jump in here in a moment. With Stratics, again that proprietary propensity model that Harland Clarke uses to identify where your best opportunities are for product and service sales. What we do, if you look all the way over to the left-hand side, we will segment your customers into 1 of 20 different segments. Those customers in segment number one or score one are those customers who show the highest likelihood for a particular product or service.

This is what we call ultra-segmenting. So if we go – let's take a look at that number one row. There are 2487 households, the cumulative number of households, of course, is 2487. They represent 4.52% of all the households that we're looking at for this particular product. There are – as we do the analysis, if you go left to right, you would see that on average, if you were to reach out to this particular customer group with a product or promotion, based on the behaviors of other account holders who are similar to those account holders in score number one, those 2487 households, if you were to conduct a campaign targeting a particular product or service to this group of this customers in segment one, your likely response rate would be 4.1%.

Now, look at that. Let's go back to the score column on the left. As you see all the way over on the left-hand side, there are 20 segments. Let's look at Segment Number 20. As I go left to right in Segment 20, there are 6850 households. There are 55000 cumulative households in all of the 20 segments. Now as a marketer, I can market my particular product, and let's say in this case, it's checking. I can market checking to 55,000 households that do not have a checking account with me or again, I don't have all the dollars in my marketing budget that I'd like. Maybe I would be better off focusing on scores one, two, three, and four.

Take a look at Row 4. Let's go left to right; 3904 households in Row 4. A little bit further to the right number of cumulative households. There are 13,896 households in scores one, two, three, and four. As I continue to go left to right, if I were to conduct a checking acquisition campaign, under cumulative response rate, to those 13,896 households, based on what I've seen in the past with account holders who show similar characteristics to those 13,000 households, I could expect a response rate of a checking campaign of 2.4%.

Long story short, I'd be much more efficient by targeting a checking campaign to those four segments, 13,896 households, rather than going out to the entire

55,000 households. I can conduct my checking campaign more frequently, more drops, expecting higher ROMI.

Tara, you recently used Stratics to conduct a, I believe, credit card campaign. Is that correct?

Tara: Yes, we have used Stratics pretty much on a quarterly basis for credit card, HELOC, and most recently, insurance.

Stephen: What kind of results or what did you see from all of that?

Tara: Well, the projected results that Harland shows on the chart are pretty accurate. We've actually received much higher results on some of that working with our campaigns. We had a credit card campaign that actually achieved almost 20% response rate because it's so accurate. We did add some outbound calling. We did do some multiple touch points within that, but the accuracy really is there. When we tested it, we tested it with HELOC, and we did it for one quarter. We took more HELOC applications and closed more HELOC loans in one quarter than we did the entire previous year. It really is allowing us to target that right message to the right person at the right time.

Stephen: Beautiful. Thank you very much. Michele, I know you're conducting cross-sell campaigns utilizing Stratics. Can you share with us what you're seeing?

Michele: Yes, Stephen, we do conduct cross-sell campaigns. We typically have around a 5%, 5.5% response rate. We use a checking offer, and we also have an auto loan offer. The auto loan offer has been a very, very strong performer. There's no question that the way the data is sliced and diced using Stratics pretty much guarantees you a very good response rate.

Stephen: Great. Thank you very much, Michele. Thank you, Tara.

Let's go to our next slide. We've shown you how Stratics can be used to identify product propensities, attrition propensities, how the opportunity analysis allows you to take a look at your new and existing account holder relationships comparing them to the benchmark. Also with an opportunity analysis, there is a mystery shop component that is built into it. The focus of the mystery shop component is to measure the service that identified branches are providing to mystery shoppers.

Now many financial institutions, when they conduct an OA, will ask us to also incorporate the mystery shop components to the opportunity analysis, particularly if they are an institution that may have merged with another financial institution or maybe acquired another bank. They want to be able to compare the service that's being provided to Legacy customers and compare that to the service being provided to those – that those new employees are providing to the customers among the financial institution that we may have acquired or merged with.

As you look at the solid bar going left to right, not only are we measuring the results of your institution's shop, asking or measuring web-based sales and service activity, but we're comparing you to a portfolio of other financial institutions. You can see, again, how you stack up to your peers or other institutions throughout the country, soan optional component to the opportunity analysis. Many institutions will go in that direction. Many institutions will use this information to help them maybe address some service or sales shortcomings.

On our next slide, so we've talked about the OA, and one of the keys of an OA is helping you to implement a campaign. Let's take a look at the next slide. Data is data as we said at the onset. Data is only as good as what you do with it. Coming out of an opportunity analysis, we're going to show you best practice, what other institutions do with this data.

Let's take a look at that first row. Let's say coming out of an OA, we identify high attrition rate. We know as we go left to right that there's a significant number of account closings within that first year of customers who, or members who have established a relationship with this institution. A recommendation might be to implement a comprehensive ongoing campaign that, if you go all the way over to the Action column, would include multiple touch points early in the relationship in order to capture things like more deposits, more loans, maybe direct deposits.

As you look at this particular slide, on the left-hand side, we will identify you those opportunities; high attrition. Maybe your cost of funds is too high. Maybe you've got low loan penetration. Maybe you have a large number of account holders that are in one particular customer or member value segment that you may want to focus some attention on for particular sales and service opportunities. Maybe you you've got strong HELOC penetrations.

Let's say at the very bottom you have strong HELOC penetration. What do we know? We know that typically 30% to 50% of HELOC's are underutilized or never even activated. What might come out of that finding might be a recommendation for a home equity line of credit activation and utilization campaign in order to reach out to customers through a multitude of different channels and encourage them to use those lines.

Let's go to the next slide. With all of that information, what will be provided to you is a direct marketing calendar, a direct marketing calendar showing all the different programs that you can implement as a result of the OA. If you look at the solid bars in the middle of this chart in this case, this institution, recommendations were onboarding, cross-Sell program, recapture, shopper alert programs to help them beef up their loan portfolio, CD maturity campaigns, retention campaigns, and there's our HELOC activation and utilization campaign. A marketing calendar like this helps a financial institution to identify or get a better handle on when things are going to happen, where their dollars are going to be spent.

Go to our next slide. What I wanted to do in the remaining couple of minutes is bring Michele and Tara back on board. Michele and Tara, thank you for your insight and your contribution today.

Michele, if you could, in general, when all is said and done, you've completed multiple OA's now, what have you learned from the OA and how did it help you with your marketing and retail efforts?

Michele: Stephen, as you've mentioned we've done – I think we've done three now. The first one we had never done customer value segmentation before. It was a real eye-opener for us. As I think Tara had mentioned, it pretty much gives you a clear road map of who you need to be targeting, what products you need to be using as an offer, and it just ensures your success rate, I believe.

As I also said, the other thing is we really like to do an OA after every acquisition because it just gives us very, very valuable data on customers that are new to our bank. We use it in that way as well. I'm a big believer in OA.

Stephen: Great. Thank you. Thank you very much, Michele. Tara, have you you ever been presented with any type of analysis that might be similar to an OA and if so, how was the OA different?

Tara: I have not. As I said earlier, it's just a nice tool to have everything in one place. Some of the OA information was brand new information to us. Some of it was kind of reiteration stuff what we'd already seen in other reports, in other analyses and conversation. This was an opportunity for us to really see where are we going to target, where are we going to start, and how do we focus. This really gave us an opportunity to pick a focus and drive forward towards that.

Stephen: Super. Thank you very much, Michele. Thank you very much, Tara. Folks, that takes us to the top of the hour and I want to again thank Michele and Tara for participating today; great stuff, great information. Just a reminder to everybody, a copy of the slide presentation as well as a recording will be going out to all of those of you on the phone today. That will be going out to you within the next week.

I hope this was helpful. Again, thanks, everybody ,for participating. Thank you, folks, for attending and we look forward to talking to you again at a future webinar. Take care.