The Cross-sell Imperative: Using Your Existing Account Holder Base to Maximize Growth and Retention

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Executive Summary

It's a fact. Across the board, in every industry, selling new products and services to existing customers is less expensive than acquiring new customers. It's also true that the more products and services a customer buys from one resource, the less likely it is for that customer to switch to a new provider.

This is the essence of cross-sell in financial services as well — leveraging existing customer relationships to enhance lifetime value, improve loyalty and stem attrition. In fact, according to Grant Thornton's 15th Bank Executive Survey, more than nine in 10 financial institutions say their number one goal is to increase cross-selling.

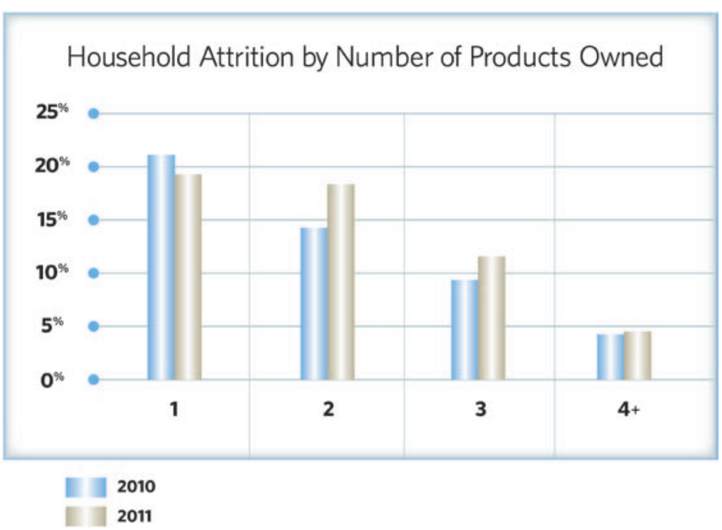
What Do Financial Institutions Have to Gain?

In the financial services world, cross-sell translates to significantly less attrition and increased account holder satisfaction.

Lower costs, higher returns. Harland Clarke's financial industry data indicates that selling new products to an existing account holder costs just 10 to 15 percent of the cost of acquiring a new account holder. Acquisition costs for a new account holder typically average $350 per account, compared to just $30 to cross-sell a new product or service to an existing account holder.[1] These numbers clearly demonstrate the opportunity for significant savings and increased ROI from an effective cross-sell program. Plus, anecdotal evidence suggests that account holders perceive value when their existing financial institution offers products and services that can benefit them.

Reduced attrition, increased value. Data from the Harland Clarke National Banking Industry Database shows that product ownership and account holder attrition are inversely proportional. In other words, as the number of products per household increases from cross-selling, the risk of account holder attrition decreases.

In addition, with each new product or service sold, the relationship with the financial institution deepens, leading to greater account holder lifetime value through increased balances, fees and other revenue.



Source: Harland Clarke National Banking Industry Database

[1]Optirate.com, "How much do you spend on customer acquisition? Are you sure?", December 8, 2011 http:// banking.optirate.com.

Less guessing, more satisfaction. When account holders' needs are met, they are more satisfied. And there's no reason to guess at what account holders want. A sound cross-sell program uses data analytics to predict which products and services account holders are most likely to purchase next.

This anticipation of needs — offering relevant products and services based on their specific circumstances — makes account holders feel "known" by the institution. By educating them about appropriate options, the financial institution supports account holders' sound financial decisions — a bottom line benefit that account holders appreciate.

Why Is It So Challenging?

Account holders typically own an average of eight financial products. Chances are, only two or three of these products are with one institution.[2] This gap represents an enormous cross-sell opportunity. So why do financial institutions have such a difficult time implementing effective cross-sell initiatives?

Lack of appropriate analytics. Working with account holder and product data requires specific skills in statistical modeling, analysis and data management that many organizations lack. The best cross-sell programs leverage the power of predictive models to help target each account holder for the right product at the right time.

Lack of multichannel capabilities. Cross-selling works best when mail, email, digital, branch and phone channels work in sync. But it's challenging to coordinate execution and performance measurement across all channels. Many institutions lack the internal resources to manage complex campaigns.

Lack of organizational buy-in and coordination. Cross-sell requires participation by many different stakeholders, from marketing executives to product managers. Because this approach touches various people's "territories," it's not uncommon for financial institutions to become paralyzed by the organizational effort. It's important to remind stakeholders that cross-sell supports the overall needs of the institution.

Five Essentials for Making Cross-sell Work

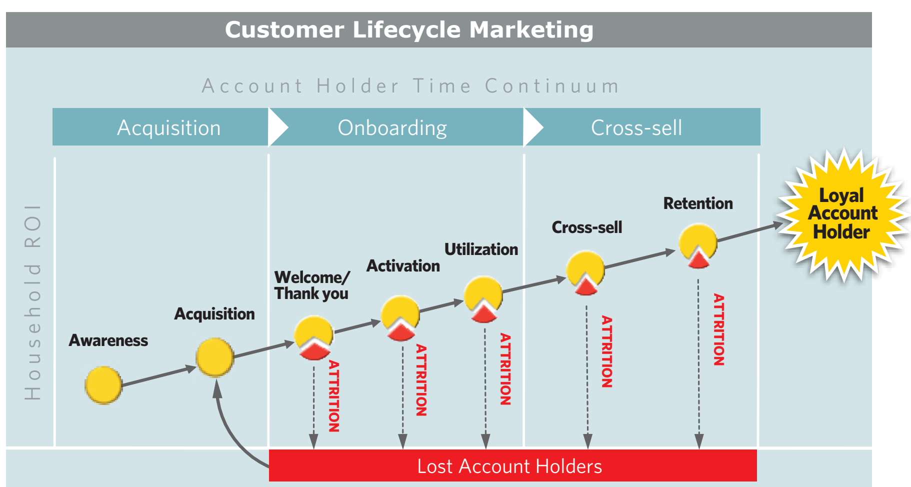
To overcome these challenges, financial institutions must:

1. **Scale slowly.** It's smart to start small. Begin with two complementary, quick-to-implement marketing channels — mail and email, for example. Bring in telephone and branch channels as the program expands.
2. **Leverage account holder data.** Introducing predictive modeling and analytics takes the guesswork out of what to sell to whom, helps to guide more targeted creative, and produces better results.
3. **Work with analytics experts.** The most effective campaigns are driven by two sophisticated statistical models:
    - *Purchase potential models* help predict which account holders have the propensity to purchase a specific product.
    - *"Next most likely product" models* predict the next product the account holder has the greatest propensity to purchase.
4. **Capture the right metrics.** Measurement of several key metrics is essential to assess program success and ROI.

[2] Harland Clarke internal campaign data

- *Product penetration per household:* This is the critical measure of the depth and quality of the account holder relationship. Typically, financial institutions that have implemented lifecycle marketing programs develop deeper relationships as evidenced by greater penetration and longer tenure.
- *Account holder attrition:* Three key components comprise attrition.
  1. Active households. This is an estimate of the number of households active during the current quarter versus the preceding quarter. Calculating this metric over time provides a good indication of how well an institution is retaining account holders.
  2. New account holder attrition. Harland Clarke's National Banking Industry Database indicates that on average, 21 percent of account holders will attrite within the first year of opening a new account. This is an important metric since a high churn rate deflates overall marketing ROI, removes an opportunity for building account holder lifetime value and increases the demand for new account acquisition.
  3. Balance retention. This metric assesses accounts rather than households, calculating the number of accounts that remain open and their average balance during the current quarter versus the previous quarter.

5. Consider a full-service partner. A full-service partner agency can manage the up-front analytics, implementation, execution and measurement of even the most complex cross-sell campaigns. Supported by a knowledgeable, experienced partner, it's painless to deploy a structured program with several channels, multiple products and offers. Plus, it allows in-house staff to focus on core duties.



Don't Skimp on Data

As the third phase of Lifecycle Marketing, cross-sell is where financial institutions reap the rewards of acquisition and onboarding.

A data-driven approach is key to cross-sell success. Using sophisticated data modeling helps financial institutions:

- Understand account holder and product dynamics
- Identify and capture growth opportunities and risks within the account holder base
- Predict account holders' propensity to purchase additional products, as well as their risk of attrition
- Score account holders by segment or value, and use predictive modeling to maximize return on marketing investment

Case Study: Enhanced Analytics Produce Huge Cross-sell Results

Harland Clarke's Cross-sell Solution helped a $13 billion bank with hundreds of locations drive higher overall response rates and maximize ROI.

Goals

1. Reduce the cost of each new account acquired
2. Increase overall response rate of marketing campaigns

Solutions

Optimized audience selection using Harland Clarke's Stratics® predictive modeling:

- Targeted, tested and optimized offers
- Engaged and enticed audience with compelling creative that quickly and strongly communicated message and offer
- Included mail, email, phone and internet banner ads in multichannel approach

Results

- Direct mail response rates averaged between 3.6 and 9 percent per product.
- Response rates for checking products increased from prior high of 1.2 percent to new high of 2.4 percent.
- Savings response rates increased similarly, from 1.3 to 3.3 percent
- Average cost per new account dropped from more than $100 to $25

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For more information about how Harland Clarke can help your institution enhance cross-sell efforts and increase return on investment, visit harlandclarke.com or contact us at contactHC@harlandclarke.com or 1.800.351.3843.

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