# Supporting Customer Acquisition Through Effective Data Modeling

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# The Challenges of Customer Acquisition

It all comes down to the customer. That axiom holds true in any industry but especially in banking. Financial institutions face a perpetual struggle to acquire new customers and nurture existing relationships.

The acquisition phase of the customer life cycle is often filled with many unique challenges for financial marketers. It can be the costliest phase of the relationship and, depending on how a financial institution manages onboarding, can yield mixed results.

Newly acquired customers may deepen their relationship with the bank based on an effective and positive onboarding experience — the outcome everyone hopes for. Or, as happens too often, ineffective onboarding (or none at all) leaves new account holders feeling disconnected from their financial institution. These are the accounts that are most likely to fall dormant and, ultimately, decamp from the financial institution in the future. In worst-case scenarios, negative onboarding experiences can turn departing account holders into detractors who will spread their discontent through word of mouth and social media.

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# The Challenges of Customer Acquisition

The challenges banks face in acquiring new customers can be partitioned into three core areas:

Identifying prospects with the highest potential for profitability. Historically, banks have viewed account holders who are established in their careers, communities and personal lives as the ones most likely to generate maximum profit for the financial institution. However, that belief is shortsighted, especially as the oldest members of the millennial generation are beginning to enter the financial growth phase of their lives.

Financial institutions now need to take a much longer-term perspective on customer profitability and find ways to not only identify the customers with the greatest potential but also help them fulfill that potential as well.

Identifying the most enticing products/services for each prospect. Banks now have numerous options for segmenting data that better address and embrace the many variables involved in targeting specific consumers.

Baby boomers aren't the only ones looking for retirement accounts. Newlyweds aren't the only consumers seeking first-time mortgages. Established families may be shopping for refinance deals at the same time they're hunting for auto loans and retirement advice. The modern customer journey is diverse, and as a result, financial institutions can find it difficult to match product messaging to prospects' needs and lifestyles.

Communicating with prospects effectively. In today's multichannel marketplace, it's not enough to simply match the message to the prospect. Banks must also match the communication mode and initiate contact with prospects not only through the consumer's preferred channel but also through every channel the consumer is using.

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# The Challenges of Customer Acquisition

It's critical for financial institutions to identify which channel is right for each particular group of prospects or, better yet, for each individual prospect. But that task can be challenging.

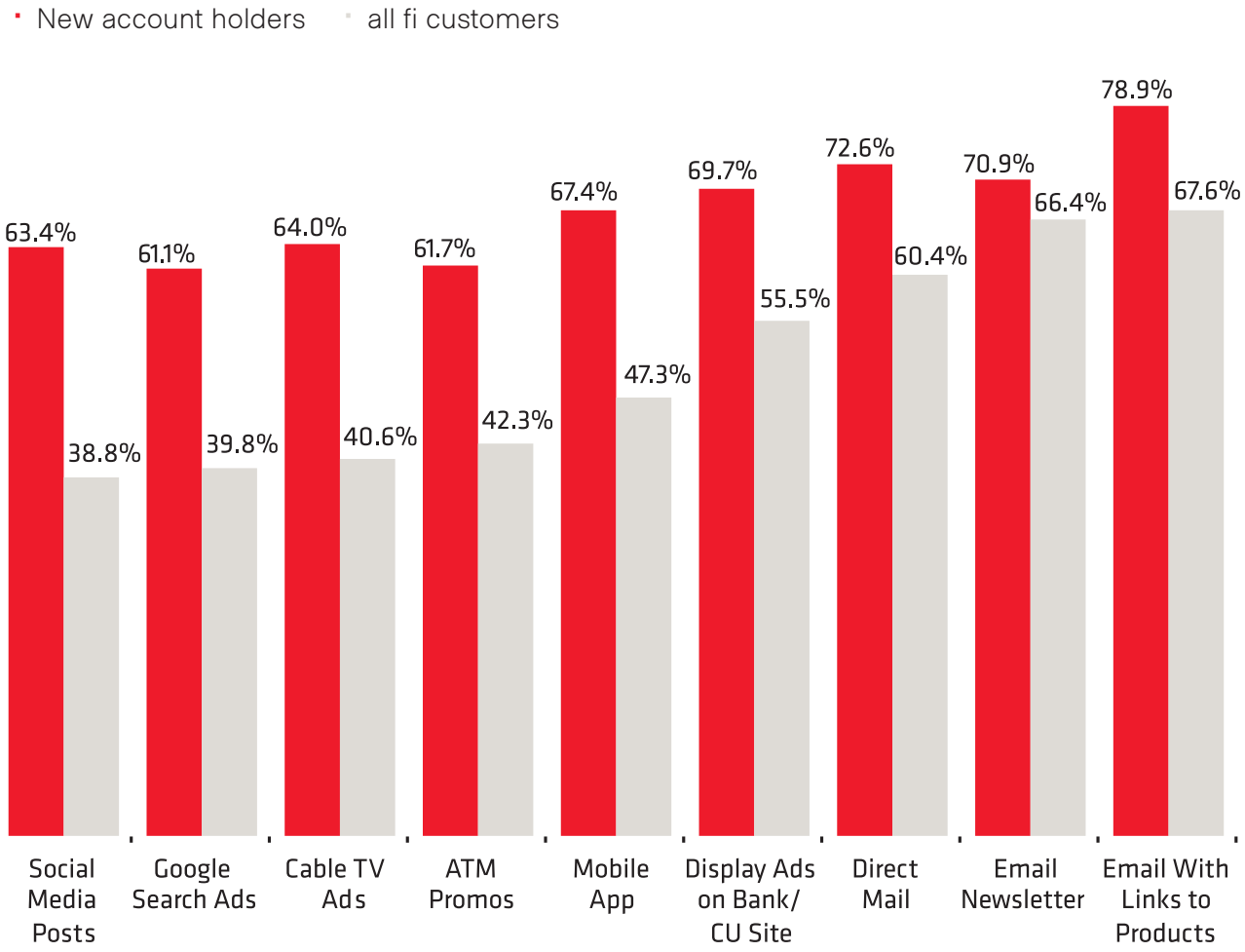
Big data is redefining virtually every aspect of the banking industry, and financial institutions are hoping that it will have a positive impact on customer acquisition efforts. However, many might not know how to optimize their data assets to match their marketing objectives. In order to maximize the value of data, financial institutions need to know how to most effectively manipulate and interpret it. The wealth of information financial institutions have at their fingertips will prove useless if few banks have the structured systems and marketing experience in place to maximize the value of that data.

Data modeling can be a key tool for helping banks conduct more effective customer acquisition campaigns.

Research by Digital Scientists on behalf of Deluxe found that new account holders value all types of communication from their primary financial institutions significantly more than do established account holders. Even so, they have preferences in how they want to receive communications, favoring digital modes like email only slightly more than traditional avenues like direct mail.

## Types of communication importance scores with a 4 or 5 rating

**Among new account holders vs. All financial institution customers**

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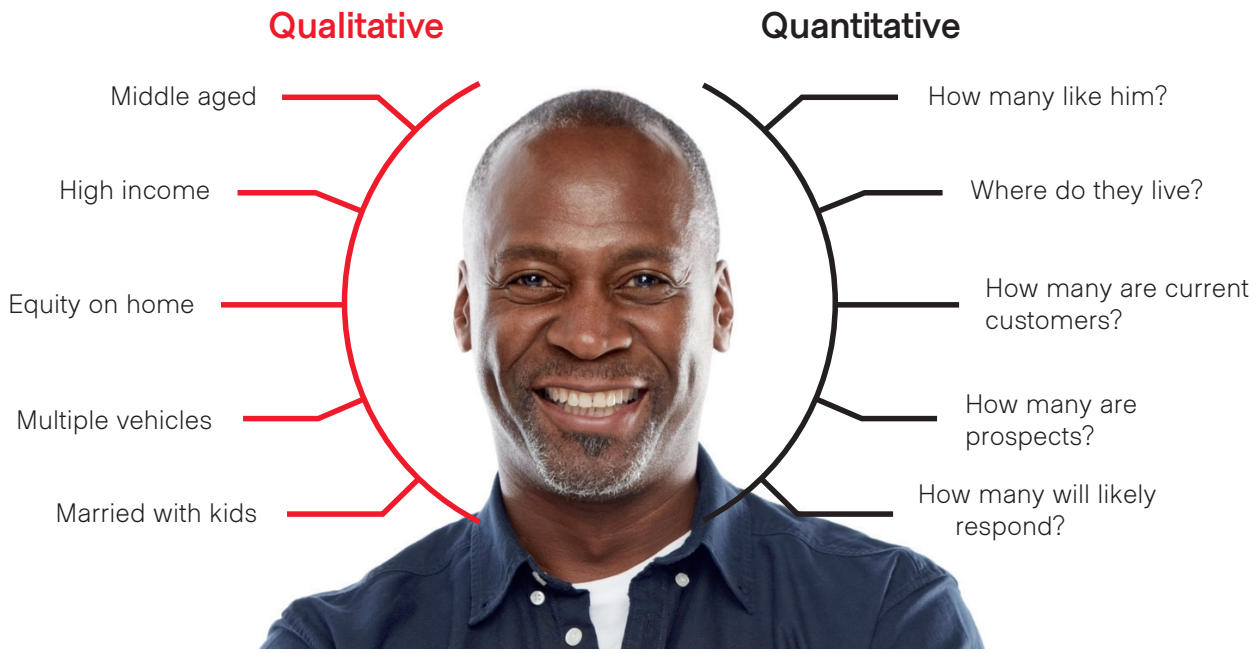
# Analytics: Making Sense of Big Data

Data is a valuable asset, and a staggering volume of data moves through banks every day. From myriad internal systems, such as relational databases and enterprise applications, to unstructured external data, like social media and online behaviors, banks have hundreds of data sources that contain valuable information about their customers and prospects.

However, the fragmentation of this data can leave banks with an incomplete picture of consumers. What's more, the sheer amount of data they handle and the speed with which it is generated and gathered may make it difficult for banks to perceive all the ways in which they can use that information to advance their business goals, including customer acquisition.

## Data falls into two categories:




**Qualitative categorical data** characterizes attributes, characteristics, properties, etc., but it does not measure them. Think of it as descriptive — a prospect is married with two children, has a bachelor's degree and so on. Qualitative data helps you understand who prospects are and group them by similar characteristics.

**Quantitative data** deals with measurements in the form of numerical quantities. Variables that concern quantities come under this category of data. While qualitative data describes, quantitative data defines and facilitates the analysis that turns raw data into actionable information.

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# Analytics: Making Sense of Big Data

## The art of making sense of raw data

Fundamentally, data modeling builds a visual representation of qualitative and quantitative data to analyze and make use of marketing profiles. Statistical models work because they are designed and built to exploit conditional probabilities that leverage segmentation — exactly the kind of actionable interpretations banks need most to support customer acquisition and cross-sell efforts.

## Five types of analyses are useful in crunching data for the banking industry's purposes:

### Descriptive

Descriptive analysis is a starting point that aims at describing the primary attributes of the prospect group. For example, it may describe how likely a prospect is to be interested in a mortgage, given data on recent life events such as getting married or relocating to a new town.

### Diagnostic

Diagnostic analysis takes the number crunching a step further, using variables and known quantities to explore the unknowns. Mining those unknowns can help unearth connections that point to probable future behaviors.

### Inferential

To draw conclusions, inferential analysis compares a sample set of data against a broader data set. The analysis objective is to create estimates with a degree of confidence. For example, inferential analysis might examine deposits at a specific branch to provide insight into overall profitability of new account holders for the entire bank.

### Predictive

By looking at current and past data, such as banking behaviors, predictive analysis looks to forecast future outcomes.

### Prescriptive

Prescriptive analysis uses both descriptive and predictive analytics to suggest possible courses of action. This level of analysis optimizes the data to find the best recipe for achieving the stated objective.

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# Analytics: Making Sense of Big Data

## Data modeling for more useful analysis

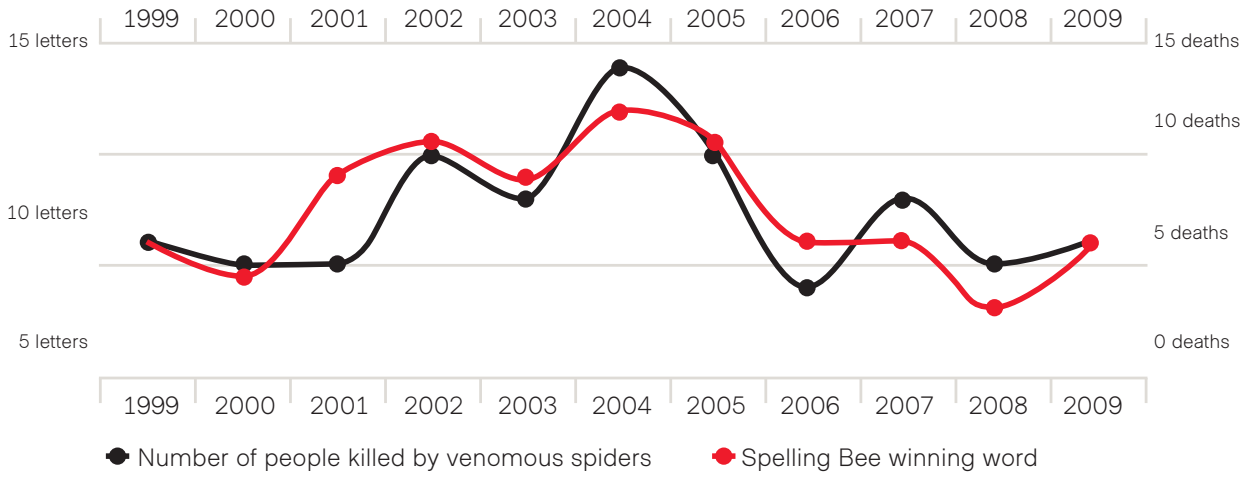
Data modeling is valuable because it allows for comparisons and analyses of sets of data to identify correlations and make educated interpretations and predictive assumptions.

When exercising the power that comes with analytics, you must also exercise great responsibility; when dealing with data, it's important to remember that data is never absolute. Question everything, and look for correlations that make sense, not just those that are apparent. As you draw conclusions, run "sanity checks" to verify your assumptions.

Just because you can make a correlation doesn't mean you should make it. As an example, people who deposit checks at their bank branch often have a car, but most of those people are not looking for an auto loan. If you aren't careful, you can make the data say things that aren't necessarily true.

## Letters in winning word of Scripps National Spelling Bee correlate with number of people killed by venomous spiders

Correlation: 80.57% (R=0.8057)




Data sources: National Spelling Bee and Centers for Disease Control & Prevention

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# Data Modeling to Identify And Score Prospective Customers

Successful customer acquisition campaigns start with identifying the prospects with the highest potential for response and profitability. Data modeling can help banks score prospects for any type of product acquisition effort, including new prospects and existing customers who don't yet have the product.

## Supporting marketing efforts

Although its applications are broad, data modeling can be particularly valuable in supporting marketing efforts aimed at customer acquisition. Through data modeling, a financial institution can:

- Target to predict which consumers are most likely to respond to the marketing campaign
- Assess customer needs to predict the likelihood that the consumer will need the product being marketed
- Predict the profitability of a prospect and assess lifetime value as well as household potential regarding revenue for the bank
- Compare prospects to identify the ones who have characteristics consistent with current customers who already have the product being marketed
- Predict the probable next purchase for existing customers based on their current product portfolio

## Additional benefits for acquisition efforts

Data modeling can also help banks understand how to maximize the efficiency of their customer acquisition efforts by:

- Helping identify prospects' and current customers' channel preferences — digital display, direct mail, social media, email, mobile app, phone, etc.
- Balancing value and cost control by determining the minimum level needed to incent a prospect to take the desired action and avoiding over-incenting that will run up costs
- Assessing incremental gain and identifying the optimum number of prospects to target before returns diminish
- Predicting marketing performance and ROI to help build the business case to acquire funding

## Scoring Explained

Scoring in data modeling works much like other forms of financial scoring. Think of it like credit scores, which aim to predict the likelihood of a prospect satisfactorily repaying a loan as opposed to defaulting on it. Scoring in data modeling aims to predict the probability of the prospect engaging in the specific behavior or behaviors you're trying to model. For example, you can score how likely an existing account holder is to open a money market account using data already in your system.

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# Data Modeling to Identify And Score Prospective Customers

Demand is high for data analytics professionals, and effective data modeling requires a specific set of data analysis skills. Financial institutions are only beginning to delve into the powerful realm of data modeling, and few will yet have the infrastructure and in-house personnel to optimize the value of their data. The high demand for data scientists and other data roles means it will be difficult for the average bank to recruit and retain people with the right expertise in many cases.

Outsourcing data modeling can be a way for banks to extract the greatest value from their data with the lowest investment of time and resources. Deluxe Marketing Solutions fulfills data modeling needs by helping financial institutions:

» Request, transfer, process, maintain and update data. We have a standardized ingestion and transformation process to ensure that all data is fresh and that all automated tasks can reliably make predictions using new reported activity.

» Access the most relevant, timely and comprehensive data. Great campaigns start with great data. We begin with the most up-to-date and relevant data drawn from a unique and comprehensive pool of sources. Our program monitors current and past customers as well as helps you identify prospective customers from hundreds of industry sources, including USPS, U.S. census, FDIC, NCUA, list providers and DMS data.

» Conduct weekly and monthly file transfers. Our processes currently transfer over 22 million records a week for our clients.

» Build a structure to handle account-level data as well as branch hierarchy and product hierarchy. This is needed to standardize automated marketing activities, whether for onboarding or cross-selling.

» Build marketing campaign lists for both prospects and customers. There is a big difference between the activities run for prospecting and the activities needed to successfully cross-sell a customer.

» Report on success of campaigns. We measure every critical aspect of every campaign, from profit margins and tenures to lifetime values. You'll know the true value your marketing investments are bringing to your organization. On average, our clients experience a 30-40 percent increase in lift over controls.

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## About Deluxe

At Deluxe, we champion businesses so communities can thrive. Our products and services help businesses, both big and small, start, grow and operate more efficiently. We do this with trusted and tech-forward solutions in areas like Cloud, Promotional Products, Payments and Checks, with more than 4,600 financial institution clients and nearly 4.8mm small business customers across North America.

### WANT MORE INFORMATION ABOUT DATA MODELING AND HOW TO USE IT TO ACQUIRE BUSINESS OPPORTUNITIES?

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