

## Direct Marketing for Lending and Deposits: Mail Is Still a Great Idea!

Brian King, Wisemar, Inc.

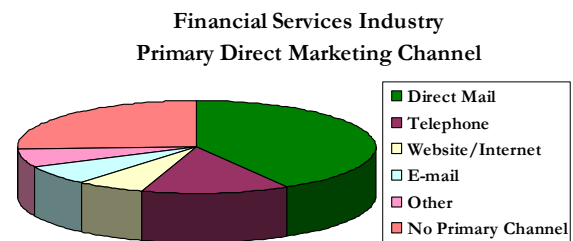
Over the past few years banks have significantly curtailed direct marketing for consumer lending and deposits. Lending may be more attractive now since net interest margins are higher. But with tighter underwriting criteria and collateral values dropping there has been lower loan origination volume. Meanwhile deposits are generally being gathered without significant marketing campaigns or pricing concessions.

With this reduction in direct marketing resulting in lower direct mail volumes, some may have the opinion that direct mail is no longer a viable tool for generating loans and deposits. In fact a recent industry publication contends that “direct mail spending will decline 39% during the next five years.”<sup>1</sup>

While there have been declines in overall direct marketing spending, financial services remained the number one industry in 2008 spending over \$13 billion.<sup>2</sup> Within financial services, direct mail remains the primary direct marketing channel. Direct mail has declined over the past few years but remains a strong value proposition for the financial services industry.

A key benefit of direct mail is it allows for fact based analysis so banks may refine and improve volumes and meet return on investment (ROI) goals. A recent Direct Marketing Association (DMA) study found that banks and other financial

services leverage direct mail (41.8%) as the preferred direct marketing channel.<sup>3</sup>



Source: Direct Marketing Association

Many banks are hungry for new deposits and loans this year. Direct marketing is a tool that will help expedite attracting new customers and new accounts. Direct mail remains the most attractive type of direct marketing. This paper will review the following key topics:

- Direct Marketing Overview
- Best Practices for Direct Mail
- TransPromo Revolution

### Direct Marketing Overview

Direct marketing focuses on communicating messages directly to the consumer and attempting to initiate an action. Direct marketing can be targeted at customers or prospects and is dominated by direct mail, website/e-mail, and telemarketing.

Direct mail remains the most prevalent form of direct marketing, although e-mail marketing is on the rise. In fact, e-mail marketing to target both

<sup>1</sup> Dodd, David. “Report Says Direct Mail Spending Will Plummet.” [www.printceo.com](http://www.printceo.com), 5 May, 2009.

<sup>2</sup> Direct Marketing Association “Direct Marketing to Account for 53% of US Ad Spend in 2009.” [www.marketingcharts.com](http://www.marketingcharts.com), 24 November 2008.

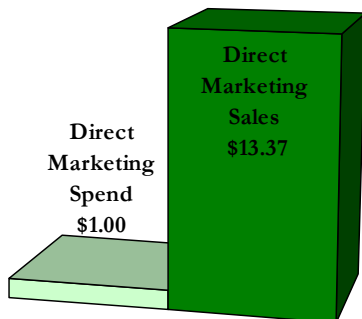
<sup>3</sup> Direct Marketing Association. “DMA Releases ‘Direct Marketing Facts and Figures in the Financial Services Industry.’” [www.the-dma-org](http://www.the-dma-org), 17 March 2008.

customers and prospects has surged over the past few years. Many larger institutions have positions or departments dedicated specifically to e-mail marketing. This combined with enhanced website functionality, company paid internet banner ads, and search engine listings have allowed the electronic channel to grow significantly.

Likewise, the telephone channel continues to be an important avenue for direct marketing. Many firms have dedicated outbound direct telesales units using auto dialers and segmented calling lists. Many inbound call centers adopt a sales and service mentality to focus on identifying potential sales opportunities in each customer service interaction.

One of the key benefits of direct marketing is that the results of direct marketing campaigns are typically measurable. This allows for a return on investment (ROI) calculation. An analysis by the Direct Marketing Association found that in 2007, banks and credit unions had sales of \$13.37 for every dollar spent on direct marketing efforts.<sup>4</sup>

### Direct Marketing ROI



Source: Direct Marketing Association

This positive ROI combined with the desire to generate new customers and incremental revenue has made direct marketing a mainstay at most banks. As budget dollars tighten, the ability to spend and directly measure with fact-based results makes direct marketing a preferred avenue for marketing spend.

Some challenges facing the direct marketing industry include the national Do Not Call registry,

<sup>4</sup> Direct Marketing Association. "DMA Releases 'Direct Marketing Facts and Figures in the Financial Services Industry.'" [www.the-dma-org](http://www.the-dma-org), 17 March 2008.

Do Not Mail lists, and the potential for a Do Not E-mail list. While these are intended to protect the consumer, they often add a layer of cost and complexity for financial service marketers.

### National Do Not Call Registry

The National Do Not Call Registry was launched by the Federal Trade Commission (FTC) in 2003. Registration for consumers is free and applies to both residential home phone numbers and cell phone numbers. There are also additional rules mandated by the Federal Communications Commission (FCC) that limit telemarketers using automated dialers to call cell phone numbers.

There are exclusions from the Do Not Call Registry such as when the consumer already has an existing business relationship. Calls to businesses are also generally excluded.

According to the FTC over 50 million registered phone numbers are on the Do Not Call Registry. To obtain access to the registry companies may be required to pay annual fees based on the number of areas codes targeted. Telemarketers must "scrub" their call list every 31 days to ensure ongoing compliance.

In addition to the Do Not Call Registry, organizations are also bound by the Telemarketing Sales Rule issued by the FTC which includes required disclosures, permitted calling periods, Caller ID information, and other related requirements.<sup>5</sup>

### Do Not Mail Lists

While the Do Not Call registry is a one-size-fits-all, the Do Not Mail preferences are a bit more complicated for consumers and marketers. The Direct Marketing Association (DMA) Mail Preference Service is a list that allows consumers to opt-out of most direct mail offers by having their name and address added to a "do not mail" file.

DMA member companies must update their mailing list quarterly and the Do Not Mail list is also available to non-DMA members. To opt-out

<sup>5</sup> Federal Trade Commission, [www.ftc.gov](http://www.ftc.gov), 25 January 2010.

of pre-approved offers of credit, consumers may contact the three credit bureaus directly (Equifax, Experian, and TransUnion).

Existing customers may be included in direct mail offers depending on the communication preferences they established with the bank or financial institution.

#### National Do Not E-Mail List

Because of the overwhelming spam problem, many pushed for the FTC to create a Do Not E-mail list that would model the highly successful Do Not Call registry. However, in an extensive 2004 report to Congress the FTC determined that a Do Not E-mail registry in any form would not have a beneficial impact on the problem of spam. In fact, it is suspected that spammers would use a registry to collect or validate e-mail addresses.

In the absence of this type of national registry it is appropriate for financial service providers to provide a process for customers and prospects to either opt-in or opt-out of receiving e-mail communications.

### **Best Practices for Direct Mail**

A successful direct mail campaign starts by establishing the goals of the initiative such as increasing cross-sell ratio, generating more loans, increasing deposit accounts, or driving net new customer households. It is also important to determine whether the campaign will be focused on customers or prospects or both?

Once the goals of the campaign have been established a compelling offer is prepared that will drive the consumer to action. Next, a detailed project plan is created with the various tasks and timelines. Effective internal communication prior and during the direct mail campaign is critical to make sure all necessary stakeholders are included and supportive of the project plan.

Industry best practices that may be considered for direct mail campaigns include segmentation, multi-channel integration, streamlined fulfillment, and internal communication:

#### Segmentation

Segmentation involves targeting capabilities to customize offers and communicate only with desirable customers and prospects. Typically banks focus first on customers since they generally yield the highest response rates. Mailings to prospects can also be important particularly for driving new customers. Proper segmentation will determine who to include in the mailing as well as the appropriate product offering for each recipient.

For lending campaigns, segmentation typically includes a credit worthiness component based on credit bureau scores. There are a variety of pre-approved or pre-authorized scenarios based on credit worthiness. Some lenders may provide invitation-to-apply offers to certain segments but many find pre-approved offers yield higher response rates. For home equity lines and loans as well as mortgages there is significant property valuation data that can also be leveraged during the campaign as part of the segmentation process.

For deposit campaigns the banks typically consider both checking accounts and certificates of deposits (CDs) to attract customers and funds. Generally there are some customers and prospects who are interested only in rate while others are more interested in product features and customer service. Segmentation helps determine appropriate offerings that are custom tailored.

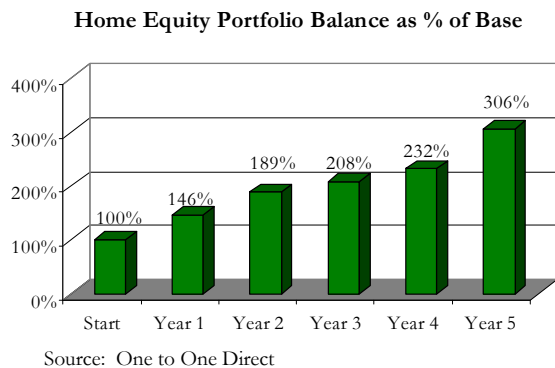
Credit bureau data is typically not utilized for deposit mailings unless a credit-related product such as overdraft protection is part of the offer. Instead, most deposit direct mail is an invitation to apply using a vendor to provide verification services upon application. This may include identifying individuals with high-risk accounts whose past bank accounts were overdrawn and then closed.

Most direct mail campaigns utilize a control group to validate the success of the segmentation. The control group contains non-segmented clients and prospects that can be measured against the segmented group. This allows for comparison and calculation of the effectiveness and true “lift” of the segmentation process.

There have been many case studies on the positive impact of direct marketing segmentation. An example provided by Richmond based industry vendor, One to One Direct, illustrated the benefits of a bank client using targeted segmentation. For this campaign the vendor provided a direct marketing solution focusing heavily on high value home equity products. Demographic and credit data were utilized to successfully identify customers and prospects in the bank's market area that were likely candidates for home equity products.

Since this bank did not have an internal direct marketing staff the vendor managed all aspects of the marketing process including the creative development and the mail piece fulfillment.

The result was the client tripled the size of their home equity portfolio over a 60-month period while maintaining delinquency/loan loss rates significantly below industry averages. This would not have been possible without segmentation.<sup>6</sup>



### Multi-channel Integration

Direct Mail is a wonderful opportunity for banks to generate more lending and deposits this year and most have found a higher degree of success by integrating the campaign across multiple channels.

A response path for a customer from the direct mail piece ideally can be supported by the branch network, telephone call center, and internet. Tracking of customer behavior is available for

<sup>6</sup> One to One Direct, [www.one-to-one-direct.com](http://www.one-to-one-direct.com), Case Study 2, 25 January 2010.

each channel including cookie-based monitoring to track customer activity online. Integrating multiple channels along with segmentation efforts, allows for optimal direct mail performance.

Cross-channel integration may be customized as appropriate. For example, some banks have found that e-mail is a great direct marketing channel for customers but not for prospects. Carefully tracking direct marketing campaign success will allow banks to identify what is working well by product offer, marketing channel, and target segment with refinements as needed.

A recent quote from Peter A. Johnson, PhD, Direct Marketing Association's Vice President of strategy, analysis, and planning highlighted the importance of multi-channel integration and segmentation. Dr. Johnson stated, "Direct marketing's integration of multiple sales channels and highly targeted offers means that businesses utilizing direct marketing typically outperform their competitors, even when sailing into financial headwinds."<sup>7</sup>

### Streamlined Fulfillment

The mail piece and the target recipients are just part of the equation. Another important consideration is the process and infrastructure to enable streamlined fulfillment. To verify that all systems and processes are working as expected and that the mailing generates the expected response, many banks will leverage an initial small direct mail pilot or test mailing.

Once this test is concluded the bank can make any necessary adjustments and proceed with the overall roll-out schedule. By testing the campaign, accurate forecasts can be made to make sure that the fulfillment and processing staff will be able to accommodate the expected volumes.

When streamlining the fulfillment process, the initial focus is on the top of the funnel focused on maximizing the response rate by promptly handling all calls and leads. Successes and refinements in this area can also be useful in preparing for future campaigns. The focus is how

<sup>7</sup> Direct Marketing Association "Direct Marketing to Account for 53% of US Ad Spend in 2009." [www.marketingcharts.com](http://www.marketingcharts.com), 24 November 2008.

to generate the maximum response rate which equates into loan applications and new deposits.



Next, it is important to focus on the middle of the funnel which includes the processing, customer interaction, and decisioning. During this stage the customer has expressed interest but the bank employees must keep the potential customer engaged and on track. Solid communication and appropriately setting expectations are critical.

While the middle of the funnel is an area that is often assumed to operate efficiently this is actually an area typically ripe for process improvement. Many banks find significant improvement opportunities in their processing and operations areas that can help minimize cost and maximize customer experience.

The bottom of the funnel is the closing and booking process. These are the steps necessary to physically open the new deposit account or book a lending product. Making this process smooth will assist in a positive customer experience and will allow for a higher probability of future cross-sell opportunities. It is important that loan closings happen as planned to avoid any unintended customer fall-out.

Focusing on a streamlined fulfillment process can assist in maximizing the returns for direct marketing while also providing ongoing benefits for all new account opening.

### Internal Communication

Solid internal communication is always important throughout the organization. It is critical to make sure everyone understands the direct mail campaign, the objectives, and who to contact for further questions. Often a simple question and answer sheet can assist with typical staff concerns.

To maximize employee buy-in and program success it is important to conduct awareness campaigns or incentive programs to drive appropriate associate participation in the program.

Once the program is completed, tracking and reporting the actual results of the campaign will assist in building internal credibility and awareness that can be leveraged for future direct mail campaigns. This includes a high level analysis of what worked well, identification of areas for potential improvement, and recognition for outstanding performance.

Finally, solid internal communication and measurement systems can provide the data needed to prepare a business case for ongoing support of direct mail initiatives as a new customer and revenue generation opportunity.

### **TransPromo**

While direct mail continues to be a viable and thriving channel for direct customer contact, another opportunity for consideration is TransPromo. This is the combination of transaction documents with promotional documents.

Transaction documents are mailed to customers to communicate information about a transaction or an account. These documents could include checking account statements, credit card bills, or monthly mortgage statements. Transaction documents are the result of the customer “opting in” to doing business with you and are typically opened and read.

Promotional documents have a sales-oriented message with a call to action. These direct mail pieces may or may not be opened by the customer. At a recent industry conference it was revealed that many companies are now combining transaction and promotional documents (TransPromo) to generate sales and long-term relationships.

This “TransPromo revolution” is beyond simple insert media such as statement stuffer and more comprehensive than text-based statement messaging. This is fully integrated, redesigned, segmentation capable TransPromo documents.

With the advances in technology and printing capabilities these customized messages provide the ability to fully integrate communication to specific segments of customers with tailored promotional information. Companies are using TransPromo to promote products and services, create ongoing customer dialogue, and communicate transaction and account information.

## Conclusion

For bankers and other financial service providers, direct marketing remains a viable and vibrant avenue for generating new customers and accounts. Understanding the limitations and opportunities of a multi-channel integrated direct mail program will drive significant return on investment.

While some executives will have the experienced staff to develop their own programs and execute with precision, others will outsource a turn-key program to a trusted industry partner. Some executives will seek assistance with key portions of the development and execution. The bottom line is that an ROI of 13:1 is strong evidence in focusing on direct marketing and direct mail this year.

Those who wait on the sidelines will be left behind, so now is the time to make preparations for generating more revenue this year. What are your goals? How can direct marketing assist you achieving your objectives?

TransPromo is also an interesting new topic that merits further research. Banks would be well-advised to determine capabilities of their current technology and consider the required investment to fully implement TransPromo capabilities.

For both deposits and lending, direct marketing can generate significant revenue. Are your operational areas ready? How can you streamline your processes and policies to maximum the efficiency and effectiveness of your organization? Often a business process review conducted by an external partner can identify multiple opportunities for immediate improvement with revenue generation and cost savings.

Direct mail has faced some challenges in recent years and new customer communication channels are being leveraged. However, as long as there remains a strong value proposition and significant return on investment, direct marketing and direct mail will remain a key tool for bankers and lenders to generate new customers and new accounts.

---

Brian King is President at Wisemar, Inc. Prior to joining Wisemar, King was Senior Vice President at BenchMark Consulting International. King's previous roles also include senior executive roles for two national vendors, senior vice president at Wells Fargo Bank, and product development, marketing, and strategic planning roles within Bank of America.

Wisemar is a management consulting firm providing dynamic solutions for the alignment of people, processes, products, and technology. The firm specializes in helping financial services clients through business process improvement, change management, and corporate strategy engagements. Wisemar was founded based on one simple principle – “client satisfaction.”

Wisemar leverages experienced senior consultants with a structured engagement process to deliver consistent positive results for clients. Wisemar executives and consultants have worked with the majority of the top 50 US banks; regional, community, and direct banks; and many of the top vendors and partners in the financial services space. This diverse experience helps provide the framework necessary to deliver innovative best practices to clients to help them improve performance. Wisemar is headquartered in Charlotte, NC.

For more information, please visit [www.wisemar.com](http://www.wisemar.com) or contact us at 704-503-6008.