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How to Win Wallet Share While Cutting Costs in Financial Institution Operations

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> In a recession economy, it is imperative to cut costs and employ efficient strategies to grow operating income. Here's what banking institutions can do to make marketing and sales teams more efficient, and achieve better returns.

Focus on Existing Customers / Members

The main strategy to focus on for increasing operating income is growing wallet share from your customers or members. PWC estimates that banks can generate a 70% return on initiatives targeting existing customers versus 10% when targeting new customers. "In a time where every bank is focused on revenue growth in a constrained and competitive environment, making smart choices with limited resources can provide a fast track to higher-margin growth."

Why This is a Winning Strategy

First, it increases your primary banking relationships. According to PWC's 2021 Digital Banking survey, consumers report that during the COVID 19 pandemic, non-primary banks did a better job of responding to their needs and 36 million consumers are considering switching their primary bank. The pandemic forced community banks and credit unions to accelerate digital banking plans to serve remote customers and members. Yet at the same time, market share for regional and community banks decreased in 2021. With pressure from direct banks, and big banks holding their strong market share, there are more competitors and choices that can provide digital banking experiences and products. Mid-market banks need to concentrate on growing business with existing customers and members to prevent attrition and win primary banking relationships.

Second, growing wallet share by adding new products often shifts your income from that member from transactional income to fee income. By growing member wallet share by adding new products such as loans and investment products, fee income increases.

Third, it increases your return on the cost of customer acquisition. We all know that customer acquisition costs are higher for new customers than for growing business with existing customers. By its very nature, this strategy is a cost saving measure. And it yields more effective returns than efforts to win new members.

Finally, this strategy improves effectiveness and efficiency of sales and marketing teams. Rather than sending an offer for a new product or service to every address in a geographic area, or even to all current customers, using a targeted approach to make personalized offers to each customer based upon what that customer is most likely to need—at scale for all customers.

How to Grow Wallet Share from Current Customers and Members

In order to grow wallet share from your existing customers or members, you need to use first party data. The good news is that this is the data that you already have about your members. You need to make it usable by combining data from sources across your financial institution to get a complete customer 360 view of each member, and use this holistic data for analytics.

AI-powered analytics can provide predictions for the “next best product” to offer each customer based upon their transactional behaviors, an enhanced customer 360 profile, and advanced propensity models and algorithms. Advanced predictive analytics mine your first party data and layer in other factors, such as geographic location, changes in banking channel use by a customer, indicators of changes in employment or life altering events (like having a baby or retiring), an understanding of combined products, and average wallet share per household, to calculate which of your products and services each customer is most likely to need next. Even two customers with similar demographics (age, neighborhood, marital status, income range), who you might otherwise target together in the same campaign, often have very different needs that are revealed by mining transactional data.

For example, the first customer may have regular gas station charges and auto maintenance transactions, indicating that he commutes and, depending upon other factors in the advanced analytical model, he might likely need an auto loan. On the other hand, his neighbor may have public transportation transactions, such as bus or rail company charges, or ride share expenses—indicating that she is not commuting by private automobile and less likely to need an auto loan.

EXXON MOBIL	07/15/22	$45.48
SPEEDWAY	07/25/22	$60.16
BOB'S SERVICE STATION	07/05/22	$430.28

UBER	06/14/22	$25.00
TRANSIT AUTHORITY	07/01/22	$155.00
LYFT	07/05/22	$12.45

Timing is everything when approaching a member with an offer. If he just changed jobs and you missed the window of opportunity to offer an IRA product, your member most likely has settled into a 401(k) with a new employer. Having fresh, near real-time insights empowers your marketing and sales teams to act when the opportunity is hot. Core reporting and dashboards reporting past performance do not deliver this type of actionable insight. Data analytics enhances offer timing for better return.

PWC reports that customers are more likely to expand their relationship with a bank when a previous transaction is still fresh in their minds. Conversely, the greater the time between a transaction and a new offer, the lower the conversion rate. At approximately nine months, the conversion rate of offers extended to existing customers is the same as that of new customers. For this reason, to lower customer acquisition costs for your financial institution, it is critical to have fresh timely insights for action before the 9 month mark.

Using these insights revealed at scale for each of your customers empowers targeted personalized messaging and approaches for your marketing and sales teams, which is more efficient and yields better returns. With this approach, your marketing and sales teams have data-driven targeted strategies for growing wallet share resulting in higher returns.

"It's the tailored messaging in the targeted campaign that meets both the financial and emotional needs of the customer, and that can improve the customers' perceptions of your bank and the likelihood of conversion," summarizes PWC. We know that younger customers are not impressed by physical branch locations or offerings. Consumers are accustomed to personalized offers from retail, and now they expect this of their financial institution. This personalized, customized approach, enabled by data analytics, will grow wallet share and increase your primary accounts.

"Granular insights reveal the sensitivity of individual customers to offer terms, such as deposit rates, and enable banks to shift marketing spend from less competitive arenas to more competitive ones. These insights also inform the design of sales offers based on the specific needs and preferences of customers—a major factor in raising conversion rates and improving customer perceptions of the bank," reports PWC.

PWC's research reveals that the banks that are best in class at this work achieve wallet shares of up to 60% versus average wallet shares of 10% to 20%, and, the effect of this discipline is compounded over time. The timespan over which a customer stays with a bank is determined by the depth of the relationship, and PWC estimates that timespan increases from about 18 months for one product to 7 years for three or more products—with all of the opportunities for revenue growth that suggests.

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Further, data analytics can provide insights on predicted lifetime customer value, identifying who will be your most valuable members over time, so that your team can focus resources on growing those relationships. Returns on spending aimed at improving the lifetime value of existing customers can reach 70%, versus 10% returns on spending directed to new customer acquisition. Insights from data analytics empowers mid-market financial institutions to dig deeper into their local roots (act upon their local knowledge using personalized offers) and find ways to make their branch presence meaningful to a profitable segment of customers. This local data, first party data, is not something that direct banks or big banks have. If harnessed, it can be a game changer for regional and community financial institutions to grow market share.

Accordingly, during this high inflation or recession-like economy, there is a winning strategy for financial institutions to make marketing and sales operations more efficient and cut costs, while yielding higher returns through using advanced predictive data analytics to mine first party data to provide insights for targeted, personalized offers that compel existing customers to consciously offer up an ever-greater share of their wallet to your institution.

About Aunalytics

Aunalytics is a leading data management and analytics company delivering Insights-as-a-Service for mid-sized businesses and enterprises. Selected for the prestigious Inc. 5000 list for two consecutive years as one of the nation's fastest growing companies, Aunalytics offers managed IT services and managed analytics services, private cloud services, and a private cloud-native data platform for data management and analytics. The platform is built for universal data access, advanced analytics and AI—unifying distributed data silos into a single source of truth for highly accurate, actionable business information.

Its Daybreak™ industry intelligent data mart combined with the power of the Aunalytics data platform provides industry-specific data models with built-in queries and AI for accurate mission-critical insights. To solve the talent gap that so many mid-sized businesses and enterprises located in secondary markets face, Aunalytics' side-by-side digital transformation model provides the technical talent needed for data management and analytics success in addition to its innovative technologies and tools. To learn more contact us at +1 855-799-DATA or visit Aunalytics at https://www.aunalytics.com or on Twitter and LinkedIn.