Course Materials

RETAIL MARKETING FOR GROWTH AND PROFITABILITY

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August 10 & 11, 2017
RETAIL MARKETING FOR GROWTH AND PROFITABILITY

AUGUST 2017

Jay W. Coakley, GSB Instructor

Focus
Bank Marketing

- **Focus**
  - Customer
  - Local Decisions
  - Community Involvement
  - Execution

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**Diagram:**

- **Maximize Retail Revenue - DDA**
  - Add-On
  - Check
  - Overdraft Program
  - NSF $ (Management & Limits)
  - Reg E Opt-in

- **Sales**
  - Simplified DDA
  - Debit Card
  - Debit Card Usage

- **Marketing**
  - Score Based
  - Opt-in
  - PP,PP

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Bank Marketing – Key Element of Retailing

- What is Marketing?
- Art or Science?

Bank Marketing

- The answer is Science - it is a Process
  - Marketing is a strategic activity and a discipline focused on the endgame of getting more consumers to buy your product more often so that your company makes more money.

Sergio Zyman
Process

- Situation Analysis
- Objectives
- Strategies
- Tactics
- Budgets
- Evaluation

Source: BMA Analysis of Bank Marketing Expenditures

We've Only Just Begun
You've got a long way to go. We'd like to help you get there.

<table>
<thead>
<tr>
<th>Average Marriage Age</th>
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<tbody>
<tr>
<td>1970</td>
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<tr>
<td>2012</td>
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</table>
Retail Marketing

the sale of goods to ultimate consumers, usually in small quantities

Build Profitable Relationships

price, place, promotion, product

Bank Organization Configuration

President

Marketing

Retail

Commercial

Support

Facilities

Sales
Retail Organization

- What does your retail organization chart look like.

Checking - Primary Account

- Auto
- Home Equity
- IRA
- CD
- Small Business
- Consumer Loans
- Mortgage Loans
- Investments
Checking - History

Regular Checking (Banker) → Free Checking (Haberfeld) → Club Products FISI → Fresh Start (Coakley) → Reward Checking (BancVue) → Value Checking (Multiple)

Haberfeld Era

- 1981/1989
- Pay 85+ of OD
- Increase fee income 66% within 3 years
- 7 Checking Accounts
- Totally Free Checking
- Consistent Marketing
  - Direct Mail
  - Gifts
Haberfeld Basics

- Checking accounts are inherently strategic and so valuable that banks should want as many as they can get.
- People choose their bank for convenience.
- Having good product – including a free account – is critical.
- Fee income is very valuable.
- With good policies, product, training, and marketing, a bank can significantly increase openings.

Source: Haberfeld

Haberfeld Era - 1989

- Total Profits (XY) = Average Profits Per Account (X) \times Number of Accounts (Y)
- Increase Households, profits rise.
- Increase Profits per Household, profits rise.
- Do both, profits rise by more than either.
- You maximize profits by maximizing households and optimizing profits per household.

Source: Haberfeld
Profits Per Account

**Income**
- Overdraft Income
- Interest Spread (Credit)
- Debit Interchange
- Other Sales
  - Checks
  - Add-On
- Service Charges
- Misc. Fees

**Expense**
- Statement
- Checks
- Branch
- Networks

Checking Account Marketing is Driven by Three Factors

- It is very hard for people to move their checking account.
- They move because they have to, not because they choose to.
- All things being equal, they choose a bank for convenience; they literally trip over the doorstep!

Source: Haberfeld
Strunk Era

- 85+ OD Pay Rate
- Letter of Confidence
- Increase fee income 66% instantly
- Free Checking with Overdraft Privilege

BancVue Era

- Reward Checking accounts are checking accounts offered by banks or credit unions that offer high interest rates in return for meeting certain requirements during a statement cycle. Typically, these requirements consist of:
  - 10 debit card transactions
  - 1 ACH transaction (sometimes you see a phrase like "direct deposit or auto ACH debit")
  - Receiving e-statements instead of paper statements
  - Signing on to the bank's or CU's on-line banking system
- Often these type of accounts are capped, usually at 25K, meaning that account balances over the cap don't earn the high interest rate.
BancVue

- Behavior Changing Checking
  - Lowers Cost, Increases Deposits

Highlights of the Journey – Fresh Start

Central Bank: The ChexSystems™ QualiFile® Decision

Jay Coolsey let out a slow breath as he glanced over the numbers in Central Bank Corporation’s latest report. In spite of an aggressive marketing campaign aimed at signing up new customers and opening more accounts, it appeared that growth at the bank hadn’t budged in 2004. How was this possible? Coolsey thought. If we don’t attract customers to the basic checking account, we’ll never establish the kind of lasting relationships we need for long-term growth in other areas. As Senior Vice President and Director of Marketing at the bank, he had a vested interest in finding out what had gone wrong.
Why think about the Non-Banked?

- Fee Income is under pressure:
  - Regulation E changes
  - Durbin Amendment changes (October-2011)
  - Proposed further OCC guidance on overdraft payment programs

Overdraft Programs

- From 15% to 85% pay (1980s)
- Communicated Limits (Late 1990s)
- Management
- Fee
You're Out!

- During 2001–2005, approximately 30 million DDA accounts were involuntarily closed for excessive overdrafting.

Underbanked

- Taken as a whole, as many as 40 million American households are underbanked, and at least half have no bank account.
Underbanked

- A ChexSystem source indicates that as much as 23% of the population has a negative record and would be denied a checking account by most banks.

What’s Happening

- Decision: 80% Open Any Account, 20% Decline
- Inquiry: 100% Open Any Account
Underbanked

- While underbanked individuals are likely to move in and out of the banking system throughout their lives, little is known about the profile and behavior of customers attempting to re-enter the system after a negative event.

Until Now!
Underbanked

□ Can we profitably service these customers and move them back into the banking system?

YES!

Value

□ $210 vs. $325
Current ChexSystem Database

- Social Security Number Verification
- DL Validation
- Previous Inquires
- Reported Information
- Collection Info
- Retail Items (Scan)

QualiFile Basic Yields a Response

- Conservative
- Aggressive
- Moderate
- Decline
- Review
- Accept
Opportunity

- Within the studied Banks 15% to 20% of the prospects asking for a checking product are turned down because of a ChexSystem hit.

ChexSystems Scoring Model

- Qualifile Custom Debit Model
  - Decline
  - Review
  - Accept
    - Any Checking
    - Fresh Start Only
StartFresh Checking®

Marketing Makes it Work!
Thinking about a Program?

- ChexSystems® Usage Reports

<table>
<thead>
<tr>
<th>ChexSystems®</th>
<th>Processing Method</th>
<th>Location Code</th>
<th>SAMPLE</th>
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<tbody>
<tr>
<td>March 2013</td>
<td>Usage Report by Megacity</td>
<td>Location Code</td>
<td>SAMPLE</td>
</tr>
</tbody>
</table>

Value Checking - Examples

- BaZing – Strategycorp
  - 30-40% of your consumer checking customers will gladly pay a fee of about $75 annually.

- IDProtect Checking - Econocheck
  - With Econocheck’s IDProtect Program, your customers are protected against the nation’s fastest growing crime.

- Buy-down or Fixed Price
How many checking accounts?

- Bank Strategy
- Sales Strategy
- Consumer Studies

Competition
Competition

Simple
What’s Your Competition Doing Today?

- Fifth Third Bank
- Wal-Mart
- PNC
- Huntington

DDA Accounts

- List all Demand Deposit Accounts (DDA) actively being sold and describe all features and selling benefits of each account.
Calculate Your Institutions Ratio of Service Charges on deposit Accounts to Assets

- For the maintenance of their deposit accounts with the bank, so-called "maintenance charges.”
- For their failure to maintain specified minimum deposit balances.
- Based on the number of checks drawn on and deposits made in their deposit accounts.
- For checks drawn on so-called "no minimum balance” deposit accounts.
- For withdrawals from non-transaction deposit accounts.
- For the closing of savings accounts before a specified minimum period of time has elapsed.
- For accounts which have remained inactive for extended periods of time or which have become dormant.
- For deposits to or withdrawals from deposit accounts through the use of automated teller machines or remote service units.

- For the processing of checks drawn against insufficient funds, so-called "NSF check charges,” that the bank assesses regardless of whether it decides to pay, return, or hold the check. Exclude subsequent charges levied against overdrawn accounts based on the length of time the account has been overdrawn, the magnitude of the overdrawn balance, or which are otherwise equivalent to interest (report in the appropriate sub item of Schedule RI, item 1.a, “Interest and fee income on loans (in domestic offices)”).
- For issuing stop payment orders.
- For certifying checks.
- For the accumulation or disbursement of funds deposited to Individual Retirement Accounts (IRAs) or Keogh Plan accounts when not handled by the bank’s trust department. Report such commissions and fees received for accounts handled by the bank’s trust department in Schedule RI, item 5.a, “Income from fiduciary activities.”
- Exclude penalties paid by depositors for the early withdrawal of time deposits (report as “Other noninterest income” in Schedule RI, item 5.j, or
2015 Results

- Service Charges on Deposit Accounts to Assets
  - Banks
  - Average 0.__%
  - Average 0.__% (With top bank removed)
  - Top Bank 0.__%
  - Bottom Bank: 0.__%

52 Regulation

Impact to Checking Accounts in America
Changes to Regulation

- How did we get here?
  - Profitability on the Whole
    - With a high percentage of OD revenue to total revenue, banks were forced to increase fees and change processes on overdrafts to meet shareholder demands.

Profitability on the Whole

<table>
<thead>
<tr>
<th>Traditional</th>
<th>70%</th>
</tr>
</thead>
<tbody>
<tr>
<td>OD</td>
<td>30%</td>
</tr>
</tbody>
</table>

If the Institution had a goal to grow revenue 5%, and didn’t increase OD fees, they would need to grow 7.14% traditionally.
How did we get here?

The Period of “Greed”

- Lending Practices.
- Easy overdraft fee increases.
  - Daily Fee – “Beat to Dog”

Changes to Regulation – Why?

Overdraft regulation changes include:

- Advertising Disclosures.
- Debit Card Opt-in (Reg E).
- Statement Reporting.
- Excessive Use and Fee Guidance.
- Processing Order.
- Consumer Financial Protection Bureau.
  - Overdraft practices have the capacity to inflict serious economic harm on the people who can least afford it, CFPB Director Richard Cordray said in a statement. “We want to learn how consumers are affected, and how well they are able to anticipate and avoid paying penalty fees.”
Loss of income.

No one can accurately forecast the exact financial impact of the Regulation changes, but most agree the change to fee income revenue has been significant.
Measuring Retail Profitability – Real Bank

Service Charges on Deposit Accounts/Assets

Is this the End of Free Checking?

- Yes, Maybe and NO.
- Depends on the leadership style.
  - “Yes” for the accountants and entrepreneurs.
  - “Maybe” if it fits within the strategic plan.
  - “No” for the “we’ve always done it that way” group.
- Do you need Free Checking?
Is this the End of Free Checking?

- Time to build a strategy by looking for opportunity.
  - Price Changes.
  - Product Changes.
  - Process Changes.

Price Changes

- Understand the consequences of “accounting” decisions.
  - American Airlines.
    - Bag fees – no service.
  - Southwest Airlines.
    - Early check-in – service – fee.
Product Changes

- Behavior based Accounts.
  - Bonus for behavior changes.
    - Interest.
    - Rebates.
  - Behaviors.
    - E-Statement.
    - Debit Card Transactions.
    - Direct Deposit.
    - Internet.

Product Changes

- Fee Based Account
  - What would the consumer pay for?
    - A higher level of service.
    - Value.
Product Changes

- Segmentation Based Accounts
  - Fresh Start Checking.
    - 20% of the Market.

Product Changes – Additional Offer

- Rebirth of club products and add-on products – Do it your way!
  - Example: ID Theft Coverage.
  - The average sale should produce $5 of monthly profit. ($60 annually) A profit improvement of 30%!
Process Changes

- Self-Service
  - Airline Kiosk.
  - Retail Check-out.
  - Deposit “Image” ATM/ITM.
  - Mobile

Marketing Your Product
Marketing

• The marketing of checking accounts is still the most important annual campaign.
  – Merchandising.
  – Structured campaigns.
    • The offer can help smooth the transition away from Free Checking.
  – Back to basics.

Branding – Retail Important!
The Customer Knows!

- NEW YORK — Wal-Mart Stores Inc. is hammering home its low-price message with a new ad campaign in a bid to bring back customers who no longer trust it to save them money.

- "We have lost our customer confidence ... in having the lowest price," said Duncan MacNaughton, chief merchandising officer at Wal-Mart, in an interview with The Associated Press.

Key Research

- Why do people switch their checking account?
  - Change home - drive pattern
  - Change job
  - Angry with bank
Preparing to Market Your Product

- Trends
- Product
- Price
- Procedures

A Look at the Market

- Branch is opening 200 new accounts per year (4 per week).
- The same branch closes about the same amount.**
- For a net result of “0.”

** Maturity level of banking center has effect on results.
Key Research

- Why do people pick us?
  - Convenience - Drive pattern
  - Word of mouth
  - Shopped around
  - Advertisement
    - Frequency
    - Event

Key Research

- Why don't people switch their checking accounts?
  - Don't know balance
  - Guilt
  - Direct deposit
  - No price awareness
  - Drive pattern
Marketing Tools

- Direct Mail
- Employee and Training
- Gift
- Refer-a-Friend
- Merchandising
- Web, Banner

Checking Event!

Merchandising Zones

- Drive Through Zone
- Referral Zone
- Closing Zone
- Identification Zone
- Diversified Products Zone
- ATM/24 Hour Zone
Challenge

Merchandising Now!
What Can WE Learn

- Genius Expert
- Business Team
- Customer Service
- Environment – Fast – Fun
- Customer Experience
- Dress
- Training
- Desire to Connect
- Technology
- Make a Difference in Someone’s Life
- Relationships
Increase Profitability

Life without Overdraft Income?

Client Bank - Results

- Missouri Bank in Four Markets
- Assets: $489,289
- Four Missouri Markets
- 9 Banking Centers
Starting Point

- 9 Checking Accounts
- No Sales Culture
- 70% Free Checking
- 20% Reward Checking
- 10% Other Checking

Product and Sales Program

- New Checking Account Line-up Started 7/5/2011
- Two Checking Accounts for 80% of the Market
  - SmartValue and SmartRewards
- Two Checking Accounts for 20% of the Market
  - StartFresh (Basic)
  - StartFresh Checking
- Two “Add-on” Sales Opportunity
  - Value Plus Package (Discontinued 7/5/2014)
  - Added: SmartBuy Package 6/1/2015 (30% increase in profit)
  - Savings
- Free Checking: In the Drawer
- Added: SmartSecure 7/5/2014
## June 2015 Results

<table>
<thead>
<tr>
<th>Type/Period</th>
<th>CHK Sales</th>
<th>Savings</th>
<th>Debit Card</th>
<th>Opt-In</th>
<th>Email Add</th>
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<tbody>
<tr>
<td>Jun-14</td>
<td>187</td>
<td>29</td>
<td>78%</td>
<td>53%</td>
<td>74%</td>
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<tr>
<td>Jun-15</td>
<td>170</td>
<td>43</td>
<td>88%</td>
<td>68%</td>
<td>85%</td>
<td>18%</td>
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<tr>
<td>+/-</td>
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<td>10%</td>
<td>15%</td>
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<td>48%</td>
<td>13%</td>
<td>28%</td>
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<td>-40%</td>
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<table>
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<tr>
<th>Type/Period</th>
<th>Jun-14</th>
<th>Jun-15</th>
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<tr>
<td>Free</td>
<td>9</td>
<td>6</td>
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<tr>
<td>SmartStudent</td>
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<td>37</td>
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<tr>
<td>Total Free</td>
<td>44</td>
<td>43</td>
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<tr>
<td>SmartValue</td>
<td>70</td>
<td>38</td>
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<tr>
<td>SmartRewards</td>
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<td>Total BuyDown</td>
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<tr>
<td>Total Fixed Fee</td>
<td>34</td>
<td>62</td>
</tr>
<tr>
<td>Total</td>
<td>187</td>
<td>170</td>
</tr>
</tbody>
</table>

### CSR Product Placemat

**Our Best Checking Choice**

**SmartSecure Checking**
- For customers interested in checking with secure security features.
  - FREE Electronic Banking Package includes Online Banking, Online Bill Payment, statements, and all new telephone banking.
  - FREE Showing Debit Card
  - Only EFT Return To-Open
  - Trip Bureau Credit File Monitoring: providing ID theft monitoring and automated tracking services to replace, locate, and recover credit.

**Equifax**
- ** credited to your account for future recovery.
- ** Used as a basis for identity theft.
- ** Widespread and effective monitoring.

**Only $4.99 a Month**
- **Save up to 70% off comparable products!
- **Customizable monitoring.

[Logo]
## CSR Product Placemat

### Other Great Checking Choices

<table>
<thead>
<tr>
<th>Checking Type</th>
<th>SmartValue Checking</th>
<th>SmartReward Checking</th>
<th>StartFresh Checking</th>
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<tbody>
<tr>
<td>Fee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0</td>
<td>$5</td>
<td>$9</td>
<td></td>
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<tr>
<td>Minimum Balance</td>
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<tr>
<td>$0</td>
<td>$0</td>
<td>$500</td>
<td></td>
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<tr>
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<tr>
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<tr>
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<tr>
<td>$10.00</td>
<td>$10.00</td>
<td>$10.00</td>
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**Secure Reward Senior Student Select Debit Email Opt**

### StartFresh Basic Checking

**GET THE EXTRAS YOU DESERVE**

<table>
<thead>
<tr>
<th>Checking Type</th>
<th>StartFresh Basic Checking</th>
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<tr>
<td>ATM Fee</td>
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<td>Wire Fee</td>
<td>$10.00</td>
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<td>Secure Reward Senior Student Select Debit Email Opt</td>
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## Small Bank - Before and After

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<th>Month</th>
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<td>12</td>
<td>15</td>
<td>15</td>
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</table>

**J a n 1 17 1 0001 1 15308**

**F E B 1 5 1 0 1 4100 1 0650 1 1**

**M A R 1 3 1 7 1 2100 9 1 423 1 8**

**39 34 36 2 0 1**

**30 25 10 3 37**

**87% 92% 5% 0% 3% 77% 64% 26% 8% 95%**

**A P R 1 325215 1 0887 1 1**

**M a y 1 8348024 1 2 1 228 1 5**

**3 1 5 91 0 1 7 42 22 01 01 52 6**

**16% 29% 32% 3% 23% 13% 71% 65% 32% 48% 84%**

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**Small Bank - Before and After**
A personalized plan to a better credit score starts here!

Two Million Wells Fargo Customers Viewed their FICO® Credit Score

Customers can view history of past FICO® Scores, learn factors that impacted their score, and see Wells Fargo's personalized credit tips.

Wells Fargo | Personal | Small Business | Commercial | Financial Services | About Wells Fargo

Two Million Wells Fargo Customers Viewed their FICO® Credit Score

Wells Fargo announced today that two million customers have already viewed their FICO® Scores through the launch of the FICO® Score Open Access program. The company introduced free access to FICO® Scores under the program to its 20 million active consumer credit customers with a Wells Fargo mortgage or home equity line of credit, credit card, private student loan, direct auto loan, or a personal line or card. Customers can see their scores through Wells Fargo Mobile® banking.

"At Wells Fargo, we recognize that customers need access to their credit information in a variety of ways because it can help them achieve their financial goals," said Marie O’Hearn, Head of Consumer Credit Risk at Wells Fargo. "That’s why we integrated a customer’s FICO® Score with their account banking experience and provided them with comprehensive credit education so they can make informed decisions about their financial future.

What the FICO® Credit Score experience offers:

The FICO® Scores that customers see as part of this program are the ones Wells Fargo uses to manage consumer credit accounts and are provided for educational purposes. Through the program, eligible customers receive:

1. Free access to their FICO® Score and what impacts the number.
2. Personalized Wells Fargo credit tips based on their score feedback.
3. An interactive graph of their past FICO® Score history.
4. Credit education, answers to frequently asked questions, and more.
Higher Credit Scores

- Employment
- Insurance
- Loans
  - Rates and Terms
- Utility Deposits
- Landlords
- Mobile Phone Companies

Process

- Customer opens a SecureChecking Account
- Customer Registers
- Customer Prints off Credit Report and Score
- Customer Sets-Up meeting with Certified MyScoreBuilder Representative.
- Rep reviews Data and Builds Credit Road Map
- Customer Follows Road Map and achieves higher Score.
Process

Open Secure Checking

Interview

Review Data

Discuss Plan

Benefits to Bank

- Revenue Stream from Secure Checking.
- Bank gets to see full credit report.
- Bank get opportunity to re-finance key loans.
- Bank become “trusted” source.
- Bank differentiates itself from the competition.
Overdraft Income

OD Program Update

- Time to Reintroduce your Program
  - Back to Basics
- Annual Statement
  - Segments
    - In – Opt-in
    - In – No Opt-in
    - In – No Debit Card
    - Out
Issue: Following is Easy!

Conclusions

- Think outside the box
  - Act NOW
  - Evaluate your core retail products, processes and people
  - Don’t follow – Become a risk taker, lead the way!
Thank You!

- Jay W. Coakley
  - Coakley Strategic Solutions LLC
  - jc@coakleystrategicsolutions.com
  - 573-462-6260 (phone/text)