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Matrix Marketing Can Mine Databases For The Most Profitable Customers

Find the most profitable customers by segmenting your database into groups.

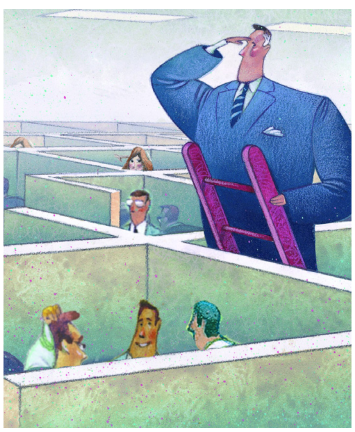
By Rich Weissman

Profitable marketing and growth is an ongoing struggle for all mortgage banks and credit unions. And, it is particularly tough on the mortgage side, as financial institutions experience declines in mortgage lending as the refinance market slows down.

How do you contact and offer the right products to the right customers at the right time, and ensure you are generating profitable growth? How do you integrate mortgage lending into the mix, so that new volumes can be generated from the existing customer base?

The answer to these questions can be found in the concept of matrix marketing. But what exactly is matrix marketing, and how can it be utilized to generate profits? In the simplest terms, matrix marketing is the "mining" of a bank's database to determine who your customers are, how they are unique, and what profitable products and services they would likely be buying next, including mortgages.

This is done through a step-by-step process that helps you find the data you need and employ it in a targeted marketing campaign to clearly defined customer member groups. The institution's database is segmented into a variety of distinct "cells," or customer groupings that help determine which customers have the greatest likelihood of additional profitable cross-sell and up-sell, including the potential for mortgage lending.



Analysis of specific and detailed characteristics of these cells enables you to hone the specific sales communication for each group.

A matrix marketing program provides the information needed to target customers throughout the year for highly specific sales and service opportunities. Typically, a calendar is constructed so that each month, appropriate cells are contacted through direct mail and/or telesales, while the marketing tools used take into account the distinct characteristics, needs and, most importantly, current and potential profitability of the customers in that cell, while also focusing on market conditions, seasonal factors and, most significantly, the goals of the lender.

Including multiple programs within your matrix marketing program helps to diversify and target many different segments of customers. This could include programs such as: profitability enhancement programs, up-selling programs, new customer/member acquisition programs, retention programs and more, all of which should include mortgage lending as a key product set.

The benefits

Matrix marketing is much more than simply selling to customers through mass mailing. Rather, it benefits an institution because it is a highly targeted approach that is directly focused on profitability. Many banks take a scattershot approach to marketing to customers, not really hitting the right audiences with the right products or marketing messages, focused on increasing profitability of each customer relationship.

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A matrix marketing program enables you to create marketing programs that zero in on specific customers with information, products and services they will most want to hear about or need. This saves time and money for the institution's marketing department. Making it even more effective, matrix marketing programs set up schedules so that customers are strategically and continuously contacted, but at the same time not inundated with materials and information.

Matrix marketing also provides information for use in retention or "at risk" programs, which can be of great benefit to the bank. This type of program identifies and targets customers "at risk" of refinancing a mortgage. With the additional knowledge available from the contact calendar, a preemptive renewal or new product offer can be sent to the customer well prior to their refinancing.

The program can also be used to woo new customers, as it ensures that they are contacted routinely. It can also be used to systematically introduce new customers to the appropriate array of products that the bank offers.

Six steps

When approached with organization and clear goals in mind, a matrix marketing program can be up and running within months. The first step begins with the understanding of the overall goals and objectives of the bank.

For mortgage lending, this includes an understanding of the role it provides in the overall strategic, profitability and sales efforts of the institutions. This also includes identifying the current market position and share of wallet of the bank, service and cross-sell goals, and ascertaining contact objectives, including those for mortgage lending. The institution must also decide if it would like to include outbound calling programs.

The second step involves appending external data to the institution's database. In order to develop a matrix marketing program, the database must be augmented through the inclusion of demographic, business-graphic and geo-coding variables.

These variables are essentially information about the specifics of the customers, such as estimated income, net worth, occupation, homeownership, current mortgage amount, LTV ratios, current mortgage lender, etc. Other variables include business, annual sales, years in business, number of employees, etc., as well as geographic indicators.

Step three includes analyzing the database. Specific products, markets, segments, customer profiles and other variables are analyzed, including mortgages. Also included are specific strategic and tactical issues the bank faces that are specific to the objectives noted in the first step of the process. With the strategy in place, the appropriate cells can begin to be developed, based on a multitude of factors.

Some of these factors might include product and transaction usage and mix, cross-sell patterns, outstanding balances and types of lending - including mortgages - and longevity of the account. This process requires multiple iterations of cell definitions, queries and analysis until the final "matrix" meets the analysis objectives. When finished, you will have a final list of cell definitions along with estimated counts per cell, recommended communication objectives per cell and a detailed contact schedule.

Step four focuses on the communication pieces that will be provided for each cell. This is where the institution's direct mail provider frequently gets involved to understand each cell's focus and communications objectives, and to create messages that will influence and resonate with the customers represented in each cell.

Step five is the setting up of business rules. This includes items such as identifying the maximum number of pieces a customer can receive in a given month, quarter or year. Age requirements, location designations, "do-not-contact" status and other issues are also defined and spelled out.

Once all the hard work has been put into designing the matrix marketing program, the final step is to prepare a detailed plan document. The document should include all the specific definitions of each cell: the specific attributes of the target group, an overview of the mail piece that will be sent, timing of when the piece will be mailed, and an estimated count of how many customers will receive the piece.

The document should also include a month-by-month schedule for all the cells in the matrix marketing program that the bank can follow. With this step complete, the matrix marketing program is ready to go!

Once the program launches, two ongoing monitoring activities will help ensure its success. First, producing monthly lists and attending to the complex business rules established, and second, tracking each contact and conducting analysis based on profitability data and monthly costs for the contacts.

Program results

With the set-up process complete, the bank should see results almost immediately. The beauty of a matrix marketing program is that results can be regularly tracked for return on investment (ROI). Conducting an ROI analysis after each customer contact allows you to understand the effectiveness of the communication.

Most of the matrix marketing program expense is incurred during the set-up phase, leaving only the monthly mailing expenses for the remainder of the program. Following launch, there also is relatively little ongoing oversight required, saving valuable management time. Modifications will need to be made to the program on occasion, but overall, once the program is developed, it practically runs itself.

The implementation of a matrix marketing program can mean real profit to any bank that takes the time and effort to set one up. How much profit? One institution saw overall annual results as impressive as a 75% increase in their net income in just one year. In dollars, that equated to a $9 million increase in net income.

Of critical importance is that mortgage lending becomes an integral part of the equation and program, and is not treated as a "stand-alone" marketing effort. Instead, it is woven throughout the program when mortgage opportunities exist for up-selling to both current customers and for new customer acquisition.

Matrix marketing programs become a way of life for successful banks. They involve changing the organization from blindly selling volumes of products to any customer willing to buy, to selling the right profitable product to the right customer at the right time through an efficient and cost-effective manner.

They also involve integrating the mortgage product line and sales into the overall marketing activities of the institution. Implementing a matrix marketing program in your bank will focus your marketing efforts and, in the process, increase your profitability. SME