PANNOS EBOOK

MARKETING: EXPENSE OR INVESTMENT?

You Be The Judge!

PANNOS

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How Marketing Has Evolved

The role of marketing in banks has certainly evolved over time. At one point, marketing was often thought of as the "arts & crafts department" or "the fun people", and functioned primarily as support for other departments when requested. Much of the work was focused around traditional media and printed collateral for the branches. Today, marketing is driving initiatives and is results-oriented, with established goals that need to be met through their efforts. They're responsible for finding the consumer where they are, and getting the right message in front of that consumer, by leveraging segmentation, so it resonates. And let's not forget data! Marketing is now responsible for analyzing and interpreting both internal data (accounts opened, new loan apps, etc.) and external data (impressions, clicks, conversion rates, etc.) and combining all of that information in a way that is meaningful. In short, marketing should have a seat at the table in helping to make decisions to move the bank forward, rather than being just a support player.

Marketing Budget

The general "rule of thumb" for marketing budgets is that it should be 0.075%-0.10% of a financial institutions (FI) asset size, although that often depends upon your strategic goals, CRA assessment area and your media market. Urban markets, for example, require significantly higher budgets for media placement than more suburban or rural areas. Many community financial institutions are still falling a bit short. In reality, to go beyond the status quo you'll likely need to spend more than that. So where do you start? Look at what your goal is, identify the asset size you're aiming for, and set your budget somewhere in the middle. That will give you enough to maintain, but also allow the ability to flex-up in certain areas to aid in that growth. Ensure that you set funds aside to be responsive to what's happening in your market. Mergers, well-known employees or lenders leaving a competitor, etc. all represent opportunities to position yourself to grab some of that business. On the flip side, if you're anticipating an acquisition, rebrand, new website, or product launch, you'll also want to budget accordingly, allowing enough for completion of the project and the launch to your market. Always stay focused on where you want your FI to be, not where you've been.

Last October, The Financial Brand did a study of 210 banks and 227 credit unions, analyzing their marketing budgets. When looking at budget as a percent of asset size, the bank average was 0.068% and the median was 0.076%. Credit unions were outspending banks by about 80%, with both the average and the median at 0.120%. Both groups, on average, saw an increase in marketing budget of 20% or more year-over-year.

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Budget Allocation

Based upon your strategic goals, market and target audience, every community FI's budget allocation will look a little different. For the most part, however, budgets can be broken into three major buckets.

1. Campaigns

This is typically the largest bucket, and incorporates a lot. This is where you account for all of the costs related to running product and brand campaigns. Design, development, mailing, printing, media costs, you name it, it falls into this budget. Of course, it's critical to take into consideration if you're marketing within an area where you're known or going into a new market. New markets will require more budget to ensure you have enough frequency and presence for the message to stick.

2. PR & Communications

This encompasses many of the things that define the "community" in community financial institution. Events, sponsorships, community outreach, giveaways and donations to the Boy Scouts all go here.

3. Vendors & Agency Fees

This one can vary a lot depending on the makeup of your marketing team. If you have a large team that can handle most things in-house, there's probably not a lot in this bucket. For many FI's however, agencies and other partners are critical extensions of your team, assisting with everything from strategy, production, website support and more. Without these essential partners, your campaigns may never get off the ground and see the light of day.

Budget Example

Based on % of budget*

Bank's Asset Size:	<$500mm	$500mm - $1.0B	>$1.0B - $.05B
% of Asset Size Allocated to Marketing**	0.0718%	0.0730%	0.0719%
Marketing Categories			
Project Management/Retainer	15.0%	15.0%	15.0%
Media Insertion Costs (Traditional & Online)***	42.5%	40.5%	38.5%
Design, Production, Website Updates, etc.	23.0%	21.5%	20.0%
Community & Public Relations	12.5%	15.0%	17.5%
Bank Promotional Items	5.0%	6.0%	7.0%
Miscellaneous	2.0%	2.0%	2.0%
Total	100.0%	100.0%	100.0%

* Based on average estimates for banks that utilize a 3rd party vendor for various segments of their marketing efforts. Each bank is unique in their budget allocation, based on location, strategic direction, philosophy, etc...

** Based on the surveying of 210 financial institutions by The Financial Brand (TFB), published October 2019. For comparison, based on 227 credit unions surveyed by TFB, the average budget allocation for all CUs up to $5B in assets is .13%, or roughly an 80.5% increase over banks of similar size.

*** Media Insertion Cost vary greatly by region, product being advertised, marketing channels being used and frequency

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The Proof is in the Pudding

You could build out the best marketing budget there ever was, but chances are, if you can quantify how you came up with that budget and what it delivered in terms of results at the end of the year (or campaign, or quarter), you're unlikely to get the same leeway the next time around. Unfortunately, it's not always easy to quantify, however digital marketing has done a lot to assist in that regard. The sheer amount of data at your fingertips means that, if you know how to read the numbers, you can tackle this in a few different ways.

Proof Point 1 – Athol Savings Bank

The Highlights:

- Athol Savings Bank wanted to increase the draw on their existing home equity lines
- Online search trends showed that there was high search volume July-October, so we proposed an integrated campaign, running August-October.
- Campaign elements included Direct Mail, Print Ads, In-Branch Signage and Digital Media.
- The bank also implemented a 6-month email campaign to customers with an existing HELOC encouraging them to draw against it. Over the 6-month period, the bank's draw-rate increased from 39% to 45% of open lines.

Prior to implementing the campaign, the bank President wanted to ensure that the investment wouldn't be wasted. To prove the value of the initiative, we did a breakeven calculation to determine how many incremental HELOCs would be needed to offset the costs of the campaign. The bank was able to provide the average draw, average life of a line, average outstanding balance and net income margin to assist in these calculations.

Breakeven Calculations

Calculations Based on Data Provided by the Bank	
Average Draw	$27,500/line (46% of $'s opened)
Assume the average life of ASB's HELOCS	6 Years
Estimated outstanding balance over 6 yrs	$18,500
Annual income per HELOC (@3.25% Avg NIM)	$601.25
Estimated lifetime income of HELOC	$3,607.50

Cost of Integrated HELOC Campaign (3-month period)	
Print Advertising	$8,750
Direct Mail to CRA Assessment Area (16,960 QTY)	$12,688 (all-in)
Digital Media (4 months)	$7,500
Production Costs	$2,850
Total Campaign Marketing Costs	$31,788

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To break even, the campaign needed to cover the total marketing investment of $31,788. With each HELOC providing an average lifetime revenue of $3,607, by dividing that revenue number into marketing costs, we arrived at a breakeven number of 9 new HELOCs needing to be opened over last year's benchmark of 42, or 51 total.

The results? Well, they speak for themselves.

Measurement Option #1 (Fixed/HELOC)	
Same period prev. year # of HELOCs opened	42
Promotional period # of HELOCs opened	72 (76.2% over '16)
30 HELOCS over LY x $3,607.50	$108,225 income
Net after $31,788 costs	+$76,437 or 240.5% ROI

Measurement Option #2 (Incremental $'s x NIM)	
Same period prev. year $'s of HELOCS opened	$2,562,900
Promotional period $'s of HELOCS opened	$5,366,800
Lines incrementally opened over LY	+$2,803,900
Estimated average draw of 46%	+$1,289,794
+$41,918 NIM @ 3.25% over LY x 6 years	+$251,508 NIM over life of line
Net after $31,788 costs	+$219,720 or 691.2% ROI

Read the full case study here.

Proof Point 2 – StonehamBank

The Highlights

- In celebration of their 130th anniversary, StonehamBank was looking to leverage the occasion to build brand awareness for the institution, while giving back to the community and customers.
- This initiative was comprised of 3 parts:
  A series of donations to charitable organizations within the community branded under the name "130 Days of Giving"
  A $130 bonus account opening special branded under the name "130 Reasons to Celebrate"
  A trivia contest with a monthly $130 cash prize
- Checking campaign elements included, Direct Mail, Print Ads, Digital Media – SEM, Display & social, Pandora, In-Branch Merchandising, Outdoor Signage.

While there was an account acquisition spin on the campaign, the ultimate goal was to give back to the community, so a breakeven analysis was not required prior to commencing. The results, however, were still scrutinized, and they held their muster.

- The bank received incredibly positive feedback from customers & the community
- As a result, there was a total of 4,687 landing page views and 201 total CTA clicks
- Facebook Page Likes increased by 37%

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But, what does that equate to in dollars and cents? Let's take a look at the results of the 130 day campaign.

Benchmark Overview	
# of Accounts Opened	497
Benchmark from Prior Year's Opening	313
Net New Checking Accounts for 130 Day Promotions	184
% Increase Over Same Period LY	**58.8%**
Estimated Total Promotional New Account Balances	$2,117,220
Estimated Net New Account Balances (over LY)	**$783,840**
Average Balance Per Account	$4,260.00

To get an even better idea of what this means to the bank long-term, and using data and averages provided by the bank, we were able to do the below four year analysis of profitability.

	Year One	Year Two	Year Three	Year Four
Estimated Retained Balance	$783,840	$744,648	$664,226	$592,490
Investable Balance	$670,183	$597,803	$533,241	$475,651
x NIM	3.63%	3.63%	3.63%	3.63%
Incremental Interest Income Realized	**$24,328**	**$21,700**	**$19,357**	**$17,266**
Retained Accounts	175	156	139	124
Non-Interest Income per Account	$72	$72	$72	$72
Additional Non-Interest Income Realized	**$12,586**	**$11,226**	**$10,014**	**$8,932**
Total Annual Income Realized	**$36,913.25**	**$32,926.62**	**$29,370.54**	**$26,198.53**
Total Additional Income Realized	**$125,408.94**			

*Calculations have been truncated. Numbers include increased deposits over benchmark, allowances for average retention rates and 10% reserve reduction for transactional accounts.

Once the costs of the campaign were accounted for, the bank is projecting to realize $86,038.94 in additional net revenue, which is a 218.5% return on their marketing investment.

ROI Calculation	
Total Additional Income Realized	$125,408.94
Total Agency Costs for Initiative	$39,370
Net Additional Revenue Realized	$86,038.94
Return on Marketing Investment	**218.5%**

"What If?"

Knowing that not all new accounts can be attributed to marketing, we did a "what if" analysis. As in, "what if marketing only accounted for 25% of the increase in checking accounts?".

That still resulted in a 54.6% ROI.

See the full case study here.

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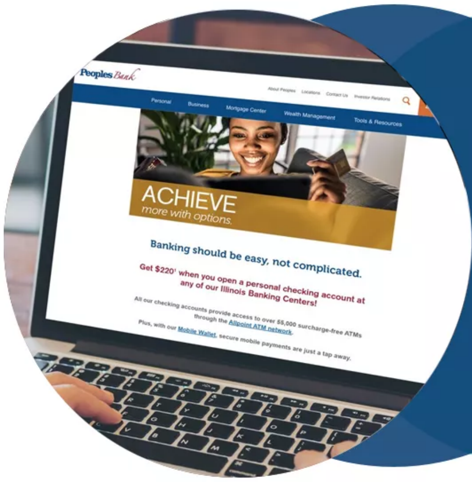
Proof Point 3 – Peoples Bank

The Highlights

- Peoples Bank possesses highly competitive products and strong brand recognition in their marketplace.
- To take advantage of their market & increase checking accounts we developed a cost-efficient digital visibility campaign (Always-On) that would help them gain continual exposure & increase their ROI.
- Campaign elements included SEM Ads, Display Ads (during peak times) and Social Media Advertising (during peak times).



While the bank was committed to the campaign without a breakeven analysis prior to launch, they wanted to ensure they could use benchmarks to monitor success. Using the year prior to the launch as the "control", we looked at the number of accounts opened, total new account balances and average balance per account.

	# of Accounts Opened	Total New Account Balances	Average Balance Per Account
Benchmark 2016	758	$4.1 million	$5,409
2017-2019	2,561 (Avg. 854/year)	$19.5 million (Avg. $6.5 million/year)	$7,614

Beyond the benchmark showing the increase in accounts, the bank wanted to understand the campaign's ROI. Looking at the additional income and accounting for the campaign cost, we can see that the bank saw a 425.1% ROI.

ROI Calculation	
Total Additional Income Realized	$431,078
Total Agency Costs for Initiative	$82,100
Return on Marketing Investment	425.1%

"What If?"

If we again play the "what if" game and say 25% of accounts came from the marketing initiative, **that still results in 106.3% ROI**.

Read the full case study here.

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Getting Started

So, how do you get started? Start by defining your goals. If you're going for just a breakeven it's a little easier, more advanced measurements may require data you don't have access to but others within the bank can assist with. Use the questions below to help you plan for success.

Questions to Guide Campaign Planning

- What is the campaign objective?
- What are the optimal components & mediums?
- What is your competition doing?
- How do you determine the necessary level of investment?
- How will you monitor & optimize for improved performance?
- How will you measure success?

Ultimately, marketing is a critical driver in sustaining and increasing FI growth. As the world becomes more digital, and analytics more accessible, your FI cannot afford to discount the role marketing plays. Though there are expenses that come with it, if you leverage effective strategy and have the necessary data, those expenses can turn into the most worthwhile investment your institution can make.