

First Tennessee Bank: Analytics drives higher ROI from marketing programs



— Dan Marks,
Chief Marketing
Officer, First
Tennessee Bank

On the path to becoming the Chief Marketing Officer of First Tennessee Bank, Dan Marks has shown all the earmarks of being a “numbers guy.” There’s the natural sense of skepticism—a need to see the proof in the numbers—that comes along with being the analytical sort. Do bank marketers have a unique way of thinking, of looking at the world? Marks affirms his belief that they do, but with a caveat. “Within banks, marketing people tend to be great at seeing opportunity and conceptualizing new ideas,” explains Marks. “But in today’s banking market, it’s increasingly important to view them with a critical eye, to discern where it makes most sense to focus the bank’s resources. That’s the balance—between creativity and discipline, between art and science—that we need to strike.”

The market that Marks is talking about is defined not only by increasing competitive intensity, but also by the strategic challenges it presents to banks, not least of which is how to optimally focus marketing resources. Banks offer a more diverse portfolio of services than before, and they do so over a wider range of channels. While this trend has given banks more latitude to compete, it has made formulating and modulating marketing strategies, tactics and programs considerably more complex. That’s because as the range of options has grown—a good thing by any measure—marketing resources are as scarce as ever. To optimize how they invest them, banks need a way to continually measure their effectiveness, learn what works and adapt over time.

Leadership Spotlight

To Dan Marks, Chief Marketing Officer of First Tennessee Bank, making resource-optimizing marketing decisions based on information is now part of the bank’s DNA. His commitment to strive for a more rigorous, results oriented marketing function went a long way toward making it happen.

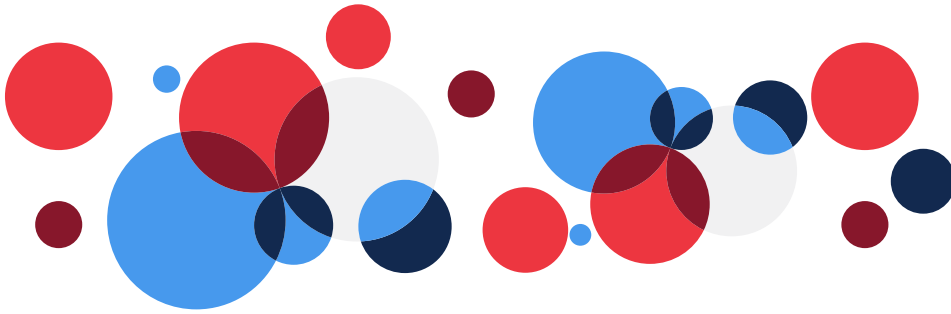
How First Tennessee got smarter

For banks today, having more ways to communicate with customers is a good thing. But it has also made it harder for banks to figure out where and how to most profitably commit their marketing resources. Leveraging predictive analytics, First Tennessee Bank is applying the ultimate acid test. It’s combining a granular understanding of the needs of customer segments with real P&L data to optimize its marketing spend, focusing on programs that deliver the highest ROI. First Tennessee’s ability to target its campaigns more intelligently has increased its response rate by 3.1%, cut key marketing costs by nearly 20%, and enables the bank to get the most from its resources.

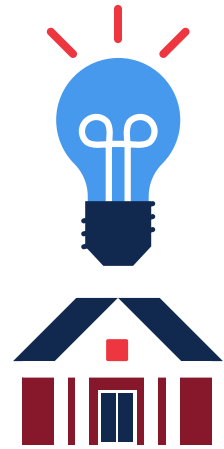
Let’s Build a Smarter Planet

Toward a new marketing mindset

When Marks took over as CMO, he stepped into a role where the primary focal point of accountability was marketing spend, in many ways a vestige of a simpler time. Reflecting his “quant” instincts, Marks proposed a new accountability framework that looked not only at overall marketing spending, but also at the results that spending generated for the bank. What Marks had in mind went beyond budgets to the very heart of First Tennessee’s marketing processes, with granular metrics and analytics providing the basis for optimization. “Our aim was to shift from the ‘marketing-as-an expense’ mindset to the idea that marketing is a true profit driver.”



Selling First Tennessee’s President of Banking on the idea wasn’t hard. Putting it into place required action on a number of fronts. Conceptually, think of an upside-down pyramid, with the technical capability to do predictive analytics at the bottom, underpinning the effort. Though it’s an essential foundation, its enablement represented a relatively modest share of the effort. More extensive (and the next level up in the pyramid) was the need to secure the business intelligence (from the bank’s data warehouse and finance organization) and from that develop the framework for ROI-based modeling. Based on product parameters like fees, spread and account balances, the model would create tiers of profitability for different kinds of products and accounts and—by extension—different segments of customers.



The benefits of predictive analytics to First Tennessee’s marketing practices

- 600% overall return on its investment through more efficiently allocated marketing resources
- 3.1% increase in marketing response rate through more accurate targeting of offers to high-value customer segments
- 20% reduction in mailing costs and 17% reduction in printing costs due to the ability to target the most attractive segment for specific offers

“Our aim was to shift from the ‘marketing-as-an expense’ mindset to the idea that marketing is a true profit driver.”



Out of the marketing box

At the top of the inverted pyramid was Marks's biggest challenge and, in many ways, the most important ingredient to his success— driving change at the process level. In this context, the key processes relate to choices made by marketing managers and within the lines of business around program funding. Should, for example, more funding be put into customer acquisition activities like lead generation? Or should the funding emphasis be on retention and cross-selling opportunities? Traditionally, such decisions were the epitome of “in-the-box thinking” —guided by a mix of past experience, intuition and conventional assumptions about where the opportunity is.

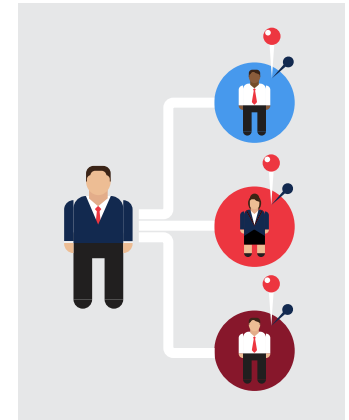
Marks's aim was to promote a new way of thinking about opportunity that would permeate the entire organization. “The message we're getting across to our people is a new way of managing and optimizing our marketing resources around ROI—one that looks ‘under the covers’ at the relative profitability of all these programs and uses that as the basis for decision-making,” says Marks. “We understand that the most effective way to drive this change is not ‘top-down,’ but through a dialogue that moves all of us—including the LOBs—towards this new way of thinking.”



“The message we're getting across to our people is a new way of managing and optimizing our marketing resources around ROI.”

First Tennessee used to structure its marketing campaigns around product lines. Over the last few years, the bank has developed a highly systematic and targeted approach. Here's how it works. Start with a granular understanding of each customer's banking needs drawn directly from lots of customer data points. Using predictive analytics models developed by Marks's staff, each customer is “scored” on their likelihood to purchase each product in First Tennessee's portfolio. The corollary benefit of this approach is that it helps the bank's marketers to pinpoint product clusters that represent “sweet spots” for cross-selling opportunities.

That's just the beginning. What sets the First Tennessee approach apart is how it applies a rigorous, systematic approach to prioritizing which opportunities make it to the campaign stage. By combining product revenue and cost information from its data warehouse with the segment data discussed above, First Tennessee's model generates a quantitative measure of the expected profitability of a given product offered to a specific subset of its customers, such that each product/segment offer under consideration is assigned an expected ROI value. With this hierarchy established, Marks and his team now have an evidenced-based framework through which to prioritize programs and allocate resources accordingly.



Leadership is: **Stepping up accountability**

Seeing increasing ambiguity in the measures that guided marketing decisions, CMO Dan Marks recognized the need to increase rigor and synchronize them around a common goal. He proposed a new framework for performance accountability (including his own) to top executives based on ROI. “We've taken away the excuse of ‘I don't know what the objective is’. That objective is to meet the ROI benchmarks that we specify.”

— Dan Marks,
Chief Marketing Officer,
First Tennessee Bank

Lessons Learned: **Explain the change**

The changes Marks had in mind amounted to an entirely new way of thinking about marketing decisions. As such, getting such change to take root required not a dictum, but a dialogue. “The onus is on the marketing group to communicate and explain the benefits of ROI-based decisionmaking. Without buy-in and credibility among the affected staff, there's no way that a new kind of thinking could take hold in a meaningful way.”

— Dan Marks

Keeping it fresh

The basic principle underlying First Tennessee's approach is that simple, untested assumptions are no basis for efficiently managing programs. The same holds true for a market model that's incapable of adapting to changes in customer preference patterns. That's why Marks and his team designed what is, in essence, a continually refreshing process. One way the team adapts the model is through a series of "test and learn" exercises, which employ the model's analytics to uncover new patterns that can be translated into new programs, as well as to fine-tune existing ones. "One of the breakthroughs of our approach is that we can rapidly test new ideas and get profitable offers to market more rapidly and efficiently," says Marks, "and that we do it as part of a continuous, systemic process."

Once a month, Marks brings his marketing managers together with the analytical staff to review the trends and findings put out by the market model. Known accordingly as "Optimization," the meeting is a forum for the stakeholders to review updates to the analytics and decide what it means for the bank's near-term program activities. "Bubble" charts—designed to map program attractiveness on an ROI basis—are the favored means of presentation. To Marks, perhaps the strongest indicator of the success of the bank's data driven decision-making is the degree to which it has been woven into the company's marketing "DNA," as he likes to call it. "We've been able to establish a rhythm to the way we monitor the market and bring our tactical marketing spending plans in sync with the most profitable opportunities," explains Marks. "This ensures that our overall marketing efforts are aligned toward a common goal."

First Tennessee: The parameters of smarter marketing

Instrumented

First Tennessee's model relies on constantly updated customer account information, enabling it to detect changes in service consumption patterns and preferences.

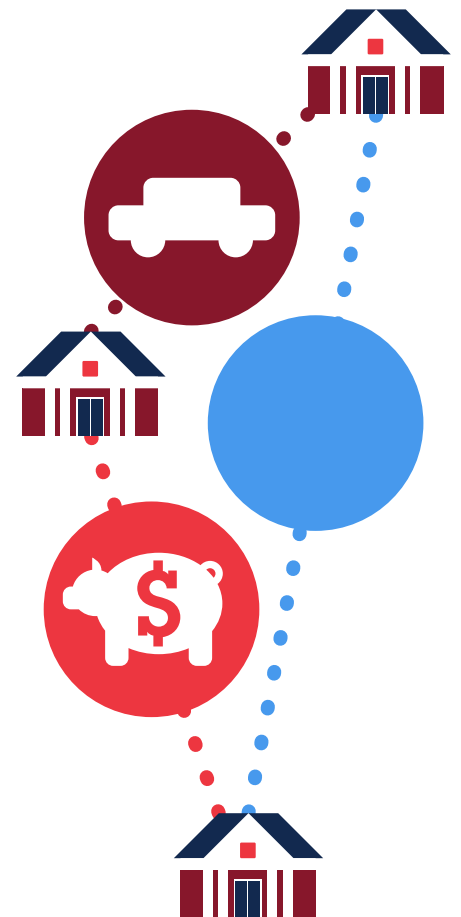
Interconnected

Blending customer segment profiles with profitability data enables First Tennessee to identify and target the most attractive segments.

Intelligent

First Tennessee's predictive analytics provides the basis to shift marketing resources from lower performing programs to those with the highest ROI.

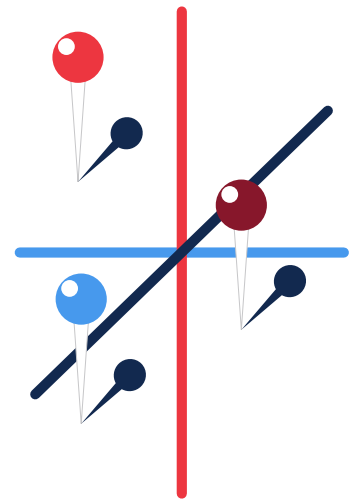
One way the team adapts the model is through a series of "test and learn" exercises, which employ the model's analytics to uncover new patterns that can be translated into new programs, as well as to fine-tune existing ones.





A smart banking report card

The bank's performance numbers also underscore the effectiveness of ROI-based optimization. For instance, the rate of response to its marketing campaigns has risen 3.1 percent, a reflection of its ability to more accurately target offerings to specific customer segments based on their needs. First Tennessee's recent growth in market share, producing gains across most of its geographic footprint in and around Tennessee, provides yet another window on its success. Overall, the bank has tallied a 600 percent return on its investment in predictive analytics through more efficiently deployed resources. By gaining the ability to target the most attractive segment for specific offers—a "quality-over-quantity" approach—First Tennessee has been able to optimize its campaign expenditures, evidenced by a 20 percent reduction in mailing costs and a 17 percent reduction in printing costs. Looking down the road, Marks expects tight resources and intense competition to be par for the course in the banking market. But with predictive analytical capabilities in place, he sees these conditions as only heightening the bank's hunger for opportunity, since it has the ability to pursue it efficiently. "We're committed to profitability and were committed to strengthening our customer relationships through every aspect of the way we do business," says Marks. "Predictive analytics gives us the intelligence and insights we need to follow through on this commitment."



First Tennessee's analytics enabled marketing management solution is...

Software

IBM® SPSS® Modeler,
IBM SPSS Statistics,
IBM Cognos® Customer Analytics

For more information

Please contact your
IBM sales representative or
IBM Business Partner.

Or visit us at:
ibm.com/smarterplanet/banking

© Copyright IBM Corporation 2011 IBM Corporation 1 New Orchard Rd. Armonk, NY 10504 U.S.A.

Produced in the United States of America. March 2011. All Rights Reserved. IBM, the IBM logo and ibm.com are trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at www.ibm.com/legal/a Other company, product or service names may be trademarks or service marks of others. This case study illustrates how one IBM customer uses IBM products. There is no guarantee of comparable results. References in this publication to IBM products or services do not imply that IBM intends to make them available in all countries in which IBM operates.



ODC00000-USEN-00

Let's Build a Smarter Planet

