

by

Joni Bessler  
bessler\_joni@bah.com

Ashok Notaney  
notaney\_ashok@bah.com

Steven Treppo  
treppo\_steven@bah.com

# Climbing the Learning Curve

Understanding Marketing ROI in Financial Services

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## Understanding Marketing ROI in Financial Services

Despite abundant resources and strong interest in marketing innovation, financial services companies have thus far made less progress in employing their understanding of return on marketing dollars to unlock marketing value than companies in other industries. Even though financial services now ranks as one of the leading industries in terms of marketing spend, it lags behind other sectors, such as consumer packaged goods (CPG), in its ability to understand the link between marketing investment and results.

This gap is more obvious than ever as marketing increases its profile within most financial services (FS) organizations: The marketing function now acts as a strategic agent in financial services, driving ambitious organic growth. More important, marketing's spending has increased as well. The top 10 U.S. financial services companies spent 3.6 percent of their revenue, or \$11.1 billion, on marketing in 2005, and that number is growing steadily (see Exhibit 1).

In failing to fully understand their marketing investments, FS companies are leaving money on the table. By designing, building, and deploying a marketing ROI capability, they can increase marketing effectiveness by 15 to 25 percent, resulting in significant bottom-line savings.

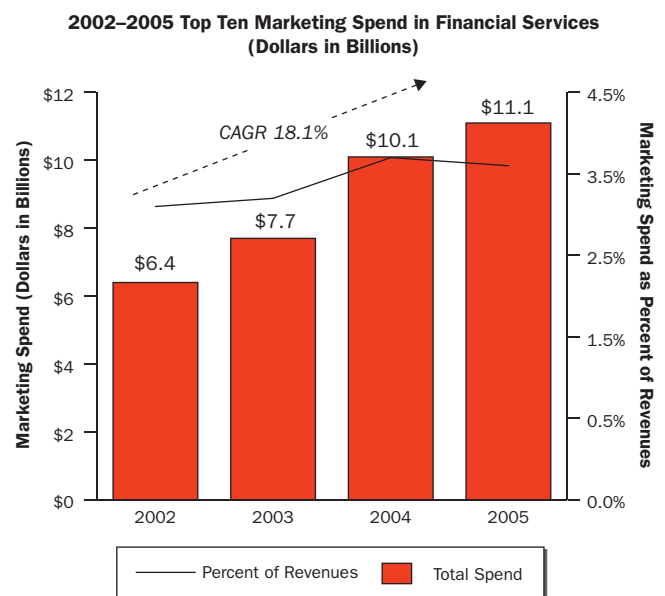
### The Extent of the Problem

In the course of our work with FS companies, we

have seen unusually wide variations in marketing ROI, with some strategies offering a negative 98 percent return while others are as high as 400 percent positive—all within a single company's portfolio of marketing initiatives (see Exhibit 2, page 2). Financial services entities may, in fact, find that their marketing investments follow an 80/20 paradigm, in which just a few initiatives generate the overwhelming portion of desired results. Unfortunately, most companies do not have the metrics in place to make this determination. Once established, accurate ROI metrics can set up a positive feedback loop, with each new round of

### Exhibit 1

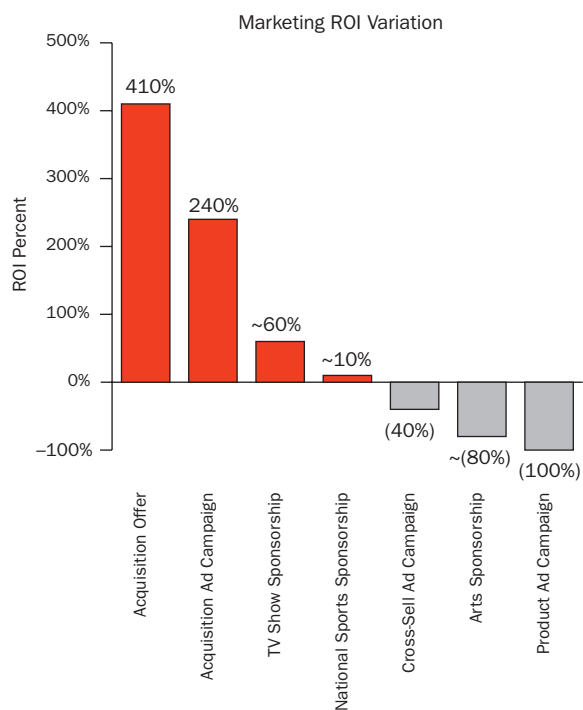
Compound Annual Growth Rate in Marketing Spend 2005



Note: AmEx spend is net of estimated rewards programs spend.  
Source: Company annual reports.

**Exhibit 2****An 80/20 Paradigm?**

ROI Ranges, by Initiative, at Sample Large U.S. Bank



Source: Booz Allen Hamilton

comparative data used to refine the next generation of initiatives. This is when a financial institution can begin to claim it is developing a true capability.

To put appropriate metrics in place, FS companies must be able to answer a series of questions:

- How much are we really spending on marketing? Although many companies think they know the answer, there are often elements they neglect to take into account—from the full cost of staffing, to the budget for entertaining clients, to the amount spent on novelties such as promotional calendars and T-shirts, extending even to such issues as whether marketing materials are sent by overnight delivery or regular mail. Furthermore, inconsistent budget coding also hinders accurate tracking of marketing organizations' spending.
- Across the entire spend, how much of a return are we getting and where is it coming from? Historically, FS companies have made little headway in finding answers to these questions, but some

have found success in using metrics adopted from the CPG industry, which has made great strides in understanding its marketing ROI.

- Finally, is the marketing strategy aligned with the sales strategy? Financial services companies typically employ very large sales forces, and marketing activities must be aligned to the sales process or they will undergo the corporate equivalent of organ rejection.

Gathering this information allows FS marketing organizations to base strategic decisions on sound insight rather than estimates (see “When Marketing Delivers...and Doesn't,” page 6). We know of one bank, for instance, that uncovered large differences in the effectiveness of its marketing vehicles for, respectively, customer acquisition and customer retention. It also found, to its surprise, that results it had previously attributed to marketing were actually more related to its number of branches per capita. Another company drew upon its ROI findings to slash its annual broadcast television budget from \$70 million to \$10 million, and shift spending into cable television, online, and sponsorship channels.

**Overcoming the Constraints of FS Marketing**

The paradox of FS marketing is that the industry has access to more marketing data than nearly any other industry, but it is much more difficult to capture, analyze, and act on this data. The installed IT investment base in financial services is huge, and FS firms have been by far the heaviest investors in the very data-harvesting tools that have made best-practice ROI analysis possible. Through control of the payments business, financial services companies also sit astride one of the most valuable assets of the information age: the customer insight embedded in millions of individual-account histories.

Nevertheless, FS companies struggle to identify business results that can be directly attributed to marketing actions. There are certain inherent structural constraints in financial services not faced by marketers in, for example, CPG. In that industry, comprehensive per-unit sales analysis is supported by the extensive use of coupons, point-of-sale data, and trade spend information. For the most part, CPG

companies do not contend with complexities such as interest-rate climates, variations in customer profitability, or dependence upon sales force incentives to drive product mix.

As a result of these constraints, some FS companies' marketing functions possess only massive quantities of raw data; others, a surprising reliance on anecdotal evidence. Some marketing teams still measure performance armed with only year-over-year comparison methods, while others use equally simple forecasting models, based solely upon extrapolating data from the past 90 days forward to the next 30 days. Financial services marketing efforts even continue to use cumbersome "control" markets, which—at the cost of forgone sales opportunities or diminished brand presence—are intentionally left out of marketing efforts in order to measure comparative impact.

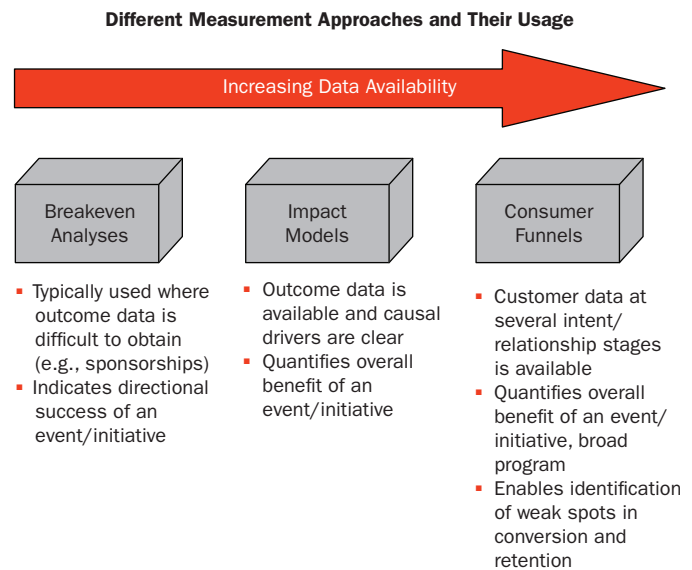
### Building a Toolbox

Although these sector-specific conditions are constraints, they are not barriers. We have found that three ROI methodologies—breakeven analyses, impact models, and consumer funnels—which are quantitatively based and decision-support oriented, will respond to nearly any data scenario at an FS company (see Exhibit 3). The amount of data that a particular company has at its disposal will determine how best to employ some combination of these three ROI methodologies.

**Breakeven Analyses.** In cases where outcome data is difficult to obtain, breakeven analyses are a way of adding an element of quantitative rigor to marketing spends. Sponsorships, in which effectiveness is difficult to assess due to the lack of true outcome data that can be linked to the spend, offer one example. Consider the case of a mortgage bank's \$2 million TV show sponsorship. The sponsorship allows the bank to associate its name and logo with the show and air several commercials during the show. A breakeven analysis is used to estimate what sort of viewer penetration would be needed to justify the spend: of the estimated eight million people (and four million households) who regularly watch the show, the bank estimates that one-quarter are reached by the sponsorship, given the relative share of voice versus

### Exhibit 3

#### Three Methodologies for Measuring Marketing Effectiveness



Source: Booz Allen Hamilton

other advertisers. From these one million households, the bank estimates that 25,000 are in the market for a mortgage, given that 2.5 percent of U.S. households took out mortgages in that year.

For this bank, the estimated lifetime value of a mortgage is \$4,000. Therefore, the bank would need 500 new customers from the pool of 25,000 to break even. As national market share was already 6 percent, the bank could reasonably expect to "automatically" get 1,500 of these customers and so would need to boost its share of this group to 8 percent. Given the strength of viewers' loyalty to the TV show and the implied loyalty to their sponsors, the bank believed the breakeven target to be achievable and so was very satisfied with its investment in the sponsorship.

**Impact Models.** Where good outcome data exists, as in a product-specific increased-sales initiative, impact models use classic regression-analysis tools to offer a picture of the investment's return. Many FS companies have already captured the data necessary to understand their return on marketing investments; the next step is to generate regular feeds in usable formats. In these situations, FS companies can use a five-step process to design and build impact models that take away noise and isolate the linkage between

### Isolating the Right Drivers

Financial services companies can use these five steps, employing a great deal of data that they have already, to provide a clearer picture of how each marketing initiative performs.

- 1. Understand the Initiative** In this step, through a process of questioning and consideration, the marketing and product teams jointly clarify the context of the marketing effort, identify the variables that will affect outcomes, and articulate the campaign's objectives. For example, is the goal of the campaign customer acquisition, customer retention, increased share of wallet, or cross-selling opportunities? What customer segments are targeted? What mix of marketing channels will be used? What variations in the campaign are expected across regions, or over time, or in intensity of spend? What specific variables will be analyzed to define success? The litmus test for successful completion of this step is the clear definition of objectives, in terms agreed to by all involved parties.
- 2. Identify Driving Factors and Examine Raw Data** The marketing campaign team identifies the internal or external variables that are beyond its control. For example, to what degree do seasonal or macroeconomic factors bear upon sales history? How do patterns of competitor activity show up in the data? What variables within the company—internal influences such as sales force initiatives or branch footprints—affect activity levels? The key is to design an approach in which variations in marketing effort or application can be correlated with varying outcomes; for example, analyzing performance across geographic areas.
- 3. Establish a Base Level of Sales** Using simple regression modeling tools, the marketing campaign team establishes the relative weight of all variables, then develops a pilot formula to set the comparative pre-campaign sales baseline. If seasonal indicators play a major role in sales activity for a particular product, for instance, monthly fluctuations would be filtered out of the regression model. The objective during this stage is to figure out how to isolate the marketing campaign, by peeling away external or environmental impact.
- 4. Determine Sales Lift and Confidence in Estimate** Using the same model, the marketing team examines coefficients on marketing variables to estimate the impact of the initiative on sales, as well as the precision of that estimate. This is necessarily an iterative process when building the models for the first time: Insignificant variables are discarded, questionable variables examined further, and refinements incorporated. This is more than just number crunching. Rather, it is an opportunity to apply business acumen and check the model for logical coherence.
- 5. Calculate ROI Based on Lift** The marketing campaign team uses the sales lift percentage figure to determine the number of incremental products sold (directly attributable to the marketing campaign). In parallel, the team calculates the “lifetime value” of a single sale, using a formula that includes elements such as the annual discount rate, the average tenure of a customer with a particular product, and the pretax annual profit per product sold. The goal is to determine actual ROI by multiplying the number of products sold by the lifetime value figure, and then setting that figure against the marketing investment.

marketing actions and business outcomes (see “Isolating the Right Drivers,” page 4).

**Consumer Funnels.** In cases where FS companies have a significant amount of data and are using it to move customers through successive stages of a desired relationship, they can use a consumer funnel to examine the progression and identify problems. For instance, one insurance company employs a consumer-funnel ROI methodology that factors in marketing levers such as brand, product promotion, channel reach, product/features capability, price, and customer service. This methodology tracks the customer’s movement through the successive stages of his relationship with the company: awareness, preference, intent, purchase, penetration, and retention.

The overall results that the methodology provides help the insurer identify previously overlooked “choke points” in the funnel—flaws in the purchase process, for instance. The company also uses its consumer-funnel methodology as a budget-planning tool. It might, for example, decide to continue funding a customer-awareness campaign with a low short-term financial return, because it now understands more clearly how such initiatives drive long-term success in high-return stages of the relationship, such as customer retention.

#### **Embedding an ROI Perspective in the Organization**

No amount of ROI methodology can compensate for a dysfunctional marketing organization, or for deeply ingrained cultural biases that may categorize marketing as a support function rather than a growth driver. Nor can methodologies offset a lack of alignment between marketing, sales, and service functions. Implementation is a critical part of effective ROI methodologies. In moving to an ROI-based decision framework, sponsoring executives should be prepared to move through a number of common implementation steps, taking full account of the cultural, organizational, and financial implications along the way.

- **Install the analytic “engine.”** A comprehensive set of methodologies and analytic tools is needed across product types and customer segments that

attributes acquisition, development, and retention to marketing activities.

- **Embed the strategic process.** To drive sustained, enterprise-wide benefits, companies must ensure that marketing ROI metrics are built into target setting, budgeting, and planning processes.
- **Align the organization.** Analysis should be ingrained not only within the organization but within individuals. Companies that do not have people who are skilled in sophisticated strategic analysis will need to recruit and/or train them. Additionally, appropriate decision rights, accountabilities, and incentives must be put in place.
- **Deploy the systems.** Companies must make certain not only that they are collecting the right data, but that they are doing it in a way that will facilitate repeated analysis; for example, by making sure that cost codes are standardized across the organization.

Measuring the results of marketing investment is a nascent science in financial services. However, if methodologies are implemented well, marketing heads would realize significant benefits from ROI metrics that align the explicitly stated objectives of the CEO (e.g., growth in top-line revenue or share), or resonate laterally with the implicit agendas of other staff-side functions such as sales operations or IT. Equipped with the quantitative capabilities we have discussed, the FS chief marketing officer can engage more productively with the board, the line, or the back office, in a common language any stakeholder can understand.

The organizational and cultural legacies within most large financial services companies ensure that building these capabilities will not be a simple undertaking. Our direct experience has shown, however, that it will be an enormously effective one. These capabilities enable companies to get a much clearer picture of their marketing spend and, more important, how well that spend is truly working for them and how closely their marketing initiatives are tied to the culture of the company.

### When Marketing Delivers...and Doesn't

A retail bank with national presence allocated \$6 million for a consolidated advertising campaign to support increased sales for both brokerage and savings accounts. The initial sales figures showed overall national improvement for both products, but left the marketing team unclear about whether the ad campaign or economic factors such as stock market strength and interest rates were responsible. When an ROI analytics model was applied, however, sharp contrasts surfaced: The savings account portion of the campaign produced more than a 200 percent return on investment, whereas the brokerage account contribution to results was negligible.

The ROI exercise illustrates the challenges presented by incorrect hypotheses and incomplete data analysis. In this case, in order to rescreen the data, some new variable calculations were introduced. First, broad trends in brokerage products (generally increasing) and savings products (generally decreasing) were factored. Second, macroeconomic and seasonal considerations affecting the brokerage and savings products were calculated. Third, the effect of different sales incentives was included.

When the sales data for each of the two products was screened for these and other variables and the background noise removed, savings products showed a 12 percent lift directly attributable to the ad campaign. In contrast, results showed no discernable correlation between ad spend and change in brokerage account sales.

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#### Contact Information:

##### SAN FRANCISCO

**Joni Bessler**  
Vice President  
415-627-4258  
[bessler\\_joni@bah.com](mailto:bessler_joni@bah.com)

**Ashok Notaney**  
Senior Associate  
415-627-3320  
[notaney\\_ashok@bah.com](mailto:notaney_ashok@bah.com)

##### CLEVELAND

**Steven Treppo**  
Principal  
216-696-1570  
[treppo\\_steven@bah.com](mailto:treppo_steven@bah.com)

## Worldwide Offices

**Abu Dhabi**  
Joseph Saddi  
971-2-6-270882

**Caracas**  
Leticia Costa  
58-212-285-3522

**Honolulu**  
Chuck Jones  
808-545-6800

**Munich**  
Jörg Krings  
49-89-54525-0

**Seoul**  
Jong Chang  
862-2-6050-2500

**Amsterdam**  
Marco Kesteloo  
31-20-504-1900

**Chicago**  
Vinay Couto  
312-346-1900

**Houston**  
Matt McKenna  
713-650-4100

**New York**  
David Knott  
212-697-1900

**Shanghai**  
Edward Tse  
8621-6340-6633

**Atlanta**  
Lee Falkenstrom  
404-659-3600

**Cleveland**  
Steffen Lauster  
216-696-1900

**Jakarta**  
Tim Jackson  
6221-577-0077

**Oslo**  
Karl Høie  
47-23-11-39-00

**Stockholm**  
Per-Ola Karlsson  
46-8-506-190-00

**Bangkok**  
Tim Jackson  
66-2-653-2255

**Colorado Springs**  
Kurt Stevens  
719-597-8005

**Lexington Park**  
Cynthia Broyles  
301-862-3110

**Paris**  
Bertrand Kleinmann  
33-1-44-34-3131

**Sydney**  
Tim Jackson  
61-2-9321-1900

**Beijing**  
Edward Tse  
8610-6563-8300

**Copenhagen**  
Torsten Moe  
45-33-18-70-00

**London**  
Shumeet Banerji  
44-20-7393-3333

**Philadelphia**  
Molly Finn  
267-330-7900

**Tampa**  
Lee Falkenstrom  
404-659-3600

**Beirut**  
Joseph Saddi  
961-1-336433

**Dallas**  
Andrew Clyde  
214-746-6500

**Los Angeles**  
Sam Porgess  
310-297-2100

**Rio de Janeiro**  
Leticia Costa  
55-21-2237-8400

**Tokyo**  
Hiroyuki Sawada  
81-3-3436-8631

**Berlin**  
Steffen Leistner  
49-30-88705-0

**Detroit**  
Laura Sue D'Annunzio  
248-619-1798

**Madrid**  
Mercedes Mostajo  
34-91-411-8450

**Rome**  
Fernando Napolitano  
39-06-69-20-73-1

**Vienna**  
Helmut Meier  
43-1-518-22-900

**Bogotá**  
Leticia Costa  
57-1-628-5050

**Düsseldorf**  
Thomas Kuenstner  
49-211-38900

**McLean, VA**  
Sam Strickland  
703-902-5000

**San Diego**  
Jeffrey Kibben  
619-725-6500

**Warsaw**  
Christian Fongern  
48-22-460-1600

**Boston**  
Dermot Shorten  
617-428-4400

**Frankfurt**  
Rainer Bernnat  
49-69-97167-0

**Melbourne**  
Simon Gilles  
61-3-9221-1900

**San Francisco**  
DeAnne Aguirre  
415-391-1900

**Washington, DC**  
David Aldrich  
703-902-5000

**Brisbane**  
Tim Jackson  
61-7-3230-6400

**Helsinki**  
Timo Leino  
358-9-61-54-600

**Mexico City**  
Carlos Navarro  
52-55-9178-4200

**Santiago**  
Leticia Costa  
562-445-5100

**Wellington**  
Tim Jackson  
64-4-915-7777

**Buenos Aires**  
Ivan De Souza  
54-1-14-131-0400

**Hong Kong**  
Edward Tse  
852-3579-8222

**Milan**  
Fernando Napolitano  
390-2-72-50-91

**São Paulo**  
Leticia Costa  
55-11-5501-6200

**Zurich**  
Jens Schädler  
41-1-20-64-05-0