

The Cost of Poor Data



Data gathering in a retail environment is fast becoming more behavior- and relationship-based than a pure statistical exercise. Asking a member about satisfaction is usually asking an opinion on something that has already happened. This is not a reliable measure of future behavior. Many people say they will do things, but how many follow through?

An example comes from the classic survey question credit unions asked: “Would you like for us to be open on Saturdays?” The response would be overwhelmingly positive, yet when Saturday hours were introduced, members simply did not come. The moral of the story is that credit unions should capture existing behavior, not what members say they will do in the future.

A recent report from The Data Warehousing Institute (TDWI) estimated that poor data quality costs U.S. businesses up to \$600 billion a year. TDWI found that organizations are often unaware of the underlying issues driving the loss, and reported that inac-

curacy remains a core problem because it prevents organizations from making effective decisions. With fierce competition and relatively small advertising budgets compared to their much larger bank competitors, credit unions must be extremely cautious with marketing research expenditures. However, cutting the wrong corners may cut value from the research results.

Moving Beyond MCIF Packages

Buying an MCIF package alone doesn't ensure good decision-making. Failing to load member data on a frequent basis, failing to ask front-line staff to capture key data at account openings, and choosing not to integrate internal information with third-party data sources can all lead to flawed data and incorrect conclusions. Most importantly, failing to tie member survey research to actual member data will inhibit the credit union's ability to make top-notch behavioral predictions.

DHA's Member Migration Model

To truly understand all aspects of an institution's membership, measurements must be taken at multiple points within the member relationship life-cycle. The concept of lifetime-based analysis is an entirely new way of looking at potential revenue for credit unions. While lifetime analysis is sometimes perceived as requiring extensive data warehousing expertise (that is both costly and cumbersome), and as being difficult to perform—that's not necessarily the case today.

DHA uses its Member Migration Model to tap into lifetime-based analysis to monitor brand health. The Model assesses the credit union's strategy, growth potential and existing brand-investment optimization efforts by identifying value drivers that deliver marketplace differentiation and, as a result, sustainable and profitable growth.

There is no better time than now to realize the advantages of data warehousing in conducting lifetime-based revenue analyses. It not only allows a credit union

to build an important online data asset and a distinctive competitive edge, but also enables marketers to analyze a member's lifetime revenue response to a number of different advertising and merchandising initiatives. Credit unions can muddle along conducting member satisfaction studies and comparing results to peers, but it will likely lead to flawed decisions and continued scrutiny of whether credit unions receive a legitimate return on their market research investments.

STEP 1 Data Mining Model

The first step of the process involves linking local market data (e.g., census, economic and local bank data) and third-party vendor databases to the credit union's MCIF/member demographic data. This develops a unique membership segmentation profile for the credit union based on consumer (non-member) and member attitudes and behaviors.

STEP 2 Survey Research

The second step of the process is to refine these member segments through a three-year quantitative research process conducted at three key member stages:

Origination

This is the first year of membership. First-year behaviors determine the strength and, ultimately, the degree of profitability of the relationship. The credit union makes a brand promise to the member and the member determines how well the credit union lives up to this promise through his/her interactions with various delivery channels.

Relationship Life-Cycle

After the initial year, the relationship either thrives or remains relatively inactive. As members progress through various life stages, so do their requirements and expectations of their financial institution. It is crucial to examine the quality of the member experience in order to identify triggers that place the relationship in jeopardy and cause members to migrate to competitors.

Departure

Members who reduce their relationship with the credit union (e.g., lower balances and fewer products) offer a wealth of information regarding what placed the relationship in jeopardy and caused the defection. Knowing why a member initiated the change allows the credit union to formulate strategies to identify "at risk" members more quickly and salvage relationships.

STEP 3 Actionable Initiatives

The final step is to ensure return on the market research investment through actionable initiatives. Using member profiles to:

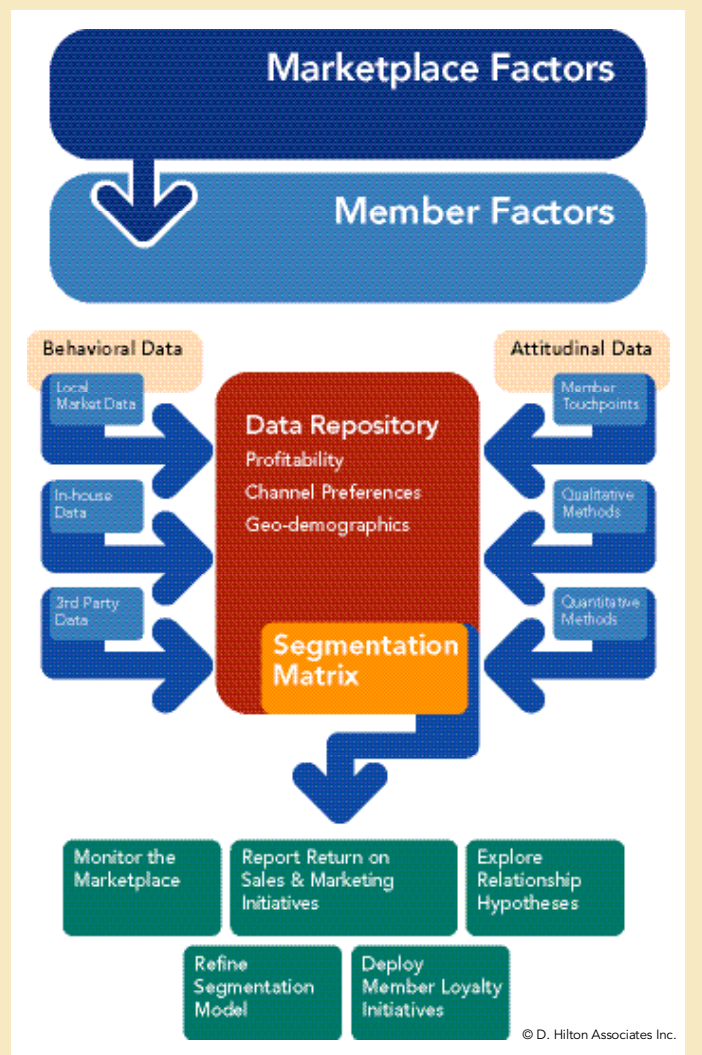
Monitor market trends

Measure return on marketing and advertising effectiveness

Explore marketing and relationship opportunities

Research product pricing and relationship strategies

Deploy member knowledge gained to front-office sales and service employees



The Cost of INSUFFICIENT DATA

Traditionally, credit unions have targeted members in their prime earning years as the most attractive market for many products and services. However, within this traditional “segment,” better data can help to identify multiple markets, which can have a substantial effect on the credit union’s ability to present the right products to the right members, thus maximizing marketing efforts.

The comparison in the table provides an illustration of how research refinements can facilitate target marketing. Members in each of the two Enhanced Segmentation examples fit within the parameters of the Traditional 35- to 64-year-old prime market. However, the details of the Enhanced Segmentation groups show significant variations between the two that suggest different marketing approaches.

Late-Stage Prosperous segment members are more profitable for the credit union. This is based largely on their greater current usage of the credit union’s loan products. However, the younger Mid-Stage Prosperous segment appears to be the stronger potential market for products such as automobile loans and mortgages. The credit union would probably reap a greater return from targeting promotions for these products to Mid-Stage Prosperous members only, instead of following the traditional pattern and sending them to all Traditional Segment members.

For more information about DHA’s member migration modeling, contact Brian Kidwell at 800.367.0433 ext. 125.

Traditional vs. Enhanced Segmentation			
	Traditional Segmentation	Enhanced Segmentation	
	Members 35 to 64	Mid-Stage Prosperous	Late-Stage Prosperous
Avg Age	52	41	55
Avg Income	\$66k	\$70k	\$73k
Profit			
Mean	\$1,529	\$762	\$1,423
Median	\$312	(\$66)	\$207
Profit Percentiles			
25th	(\$209)	\$779	\$1,647
50th	\$312	(\$66)	\$207
75th	\$1,933	(\$254)	(\$219)
Product Holdings			
Checking	72%	72%	73%
Certificates	34%	33%	38%
IRAs	11%	10%	11%
Automobile	31%	33%	36%
Mortgage	11%	6%	15%
Visa/Mastercard	46%	41%	70%
LOC	13%	10%	20%
Home Equity	6%	1%	10%
Future Purchases			
Checking	3%	3%	1%
Certificates	9%	9%	7%
IRAs	3%	2%	2%
Automobile	8%	12%	5%
Mortgage	9%	14%	7%
Home Equity	4%	8%	3%

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