Spotlight

GALAPAGOS LLC

Renewed focus softens budget cuts

"New account acquisition costs for current customers are, on average, 88% lower than account acquisition costs for new customers."

Realigning budget allocations with the most likely opportunities for growth can help you maximize the impact of your remaining marketing budget.

Despite the case that this may be the best time to be promoting the bank, marketing budgets continue to be cut. If you are faced with this reality, you need to make certain that what money you do have is being spent on the right things.

Marketing drives growth. And that growth comes in three ways: 1) From keeping the customers you have longer, 2) By selling more to those customers, and 3) By attracting new customers to the bank. (No rocket science here!)

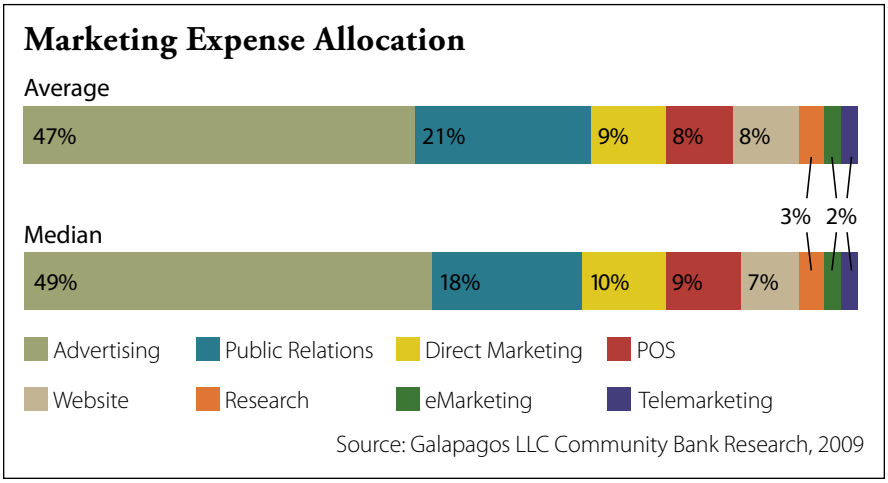
But when we review marketing budgets at community banks, we invariably find a disconnect between spending and growth opportunity, with a disproportionate amount being spent on new customer acquisition.

For example, advertising and public relations make up well over half of the average marketing budget. While these mediums provide exposure to current customers, their primary intent is to attract new customers.

Marketing budgets achieve more when they are focused on the best opportunities for growth. The challenge for most community banks is to first identify and quantify these opportunities. Analysis of the bank's customer base and markets will reveal opportunities within the three growth buckets.

Customer Retention

On average, community banks lose 14% of their customers annually. This represents about $140,000 in balances per million in assets. Some of this attrition is due to the inevitabilities of customers moving or dying. But most is due to customers being placed into the wrong accounts, not perceiving value, or not being made to feel that they or their business is appreciated and rewarded by the bank – issues that can be addressed with the right service strategies.



"85% of new accounts generated in the past 12 months came from households within a five-minute drive time of a branch."

Customer Expansion

Customer wallet share averages 47% in community banks. So for every thousand dollars of a customer's business, there's another $1,127 held elsewhere. Current customers account for 75% of all new accounts opened and 71% of new balances. By focusing on this opportunity, community banks have been able to increase wallet share by up to three percent per year. More importantly, expanding relationships with current customers delivers another benefit: Banks can cut new account acquisition costs from $385, on average, for a new customer, to $48 from a current customer, dramatically improving marketing ROI.

Customer Acquisition

It has been recognized for some time that customer convenience, primarily as defined by brick and mortar, is the primary driver of new retail and small business accounts. A recent study across our client base of new community bank customers revealed that 85% of new accounts generated in the past 12 months came from households within a five-minute drive time of a branch. Consider the millions of dollars being spent on customer acquisition talking to prospects with whom the chances of establishing a long-term relationship are next to zero.

Focus to Improve Marketing Return on Investment (MROI)

We recently conducted a Marketing Audit for a community bank looking to find ways to trim its marketing budget without a significant impact on overall growth. The table below illustrates how their budget was allocated across the three growth buckets compared to the size of opportunities each bucket represented, which we had calculated from their customer and market data.

Growth Objective	Customer Retention	Customer Expansion	Customer Acquisition
Opportunity	$31.6 MM	$157 MM	$97 MM
% of Opportunity	11%	55%	34%
Current Budget	$296,000	$507,000	$606,000
% of Budget	21%	36%	43%

In this case, the budget was reallocated to better focus on growth opportunities and the bank was able to reduce overall marketing expenses by 19% without experiencing a significant drop in new account activity.

The Takeaway

In an ideal world, bank marketing budgets would actually increase during an economic downturn in order to take advantage of the reduced competitor activity. But in the short term, by focusing on growth opportunities, community banks can sustain a 25% reduction in marketing budgets while experiencing only a zero to five percent reduction in actual growth realized. This improvement in overall MROI is, perhaps, the silver lining in the current round of budget cuts.

For more information on the Marketing Audit Process, call 616.608.7359 or email jkane@galapagosmarketing.com.