THE BAD AND GOOD OF BANK ADVERTISING

by Steve Brown

A recent ad for Capital One caught our eye yesterday and not in a good way. The ad featured customers fighting their way through real life, overlaid with animated villains trying to stop them from spending. By using the Capital One Debit Card, customers were shown collecting reward points and emerging victorious in the video game of life.

First, we found it odd that Capital One, a credit card company, was promoting their debit card - obviously a sign of the credit stressed times. Second, by using the video game motif, who are they marketing to - Nine year olds with checking accounts? Finally, the ad seemed woefully out of touch in this age of anti-consumption and less spending. Capital One would have been much better by selling consumers on building their savings accounts, instead of going after interchange fees. Reward point debit cards can't be a great money makers for a bank that is built around credit card usage and rate sensitivity.

The feeling got us thinking about the right way to conduct bank marketing, so we put together a list of best practices in this area. Below is a list of points in no particular order:

-Focus on quantifiable objectives, such as gaining market share in a specific part of the footprint or driving specific product sales. Going after "brand awareness" may work, but there will be no way to know.

-The objective of media usage should be one of penetration, not loyalty. Loyalty is better achieved through calling officer response or product structuring (like a VIP program).

-Emotional bank marketing will have a larger impact than a quantitative approach. This is counter to how many logical and numbers-oriented business people think.

-Marketing efforts with "talk value" usually garner the best response. Creating ads that are funny, tied to community events or prove innovation (like being the first to allow businesses to miss a payment) have been shown to have the greatest impact.

-Bank ads that are spread out over the course of a year have a larger impact than running a series of ads over quarterly intervals. This is contrary to how many marketing executives were taught in school.

-The more often your brand appears in an ad, the higher the memory of that ad will be.

-Don't overlook proper in-branch marketing, as it can be more effective than media (print, radio, TV, internet, etc.) advertising.

-That said, utilizing the internet can be a bank's most effective channel for media advertising. Google Ad Words and similar programs have proven more effective (and quantifiable) than print, TV or radio.

-While bank marketing campaigns very greatly, a good benchmark is that for every 1% of gross revenue spent in advertising, a direct 10bp increase should be achieved in earnings (either through revenue enhancement or cost of funds savings). In addition, satisfaction should be increased, loyalty promoted and employee moral boosted.

-For an innovative bank with a quality program, optimal spending on marketing is around 8% of gross revenue. Any more and dollars may be wasted. Any less, and a bank may not be investing enough in its brand.

Marketing is one of the hardest disciplines in banking to get right because it is so hard to understand the cause and effect relationship between spending and return. Hopefully, by instituting some of the above bullet points, bankers can help earnings - because like life, banking is no video game.

BANK NEWS

Comp Czar

Kenneth Feinberg has been appointed by the Obama administration to oversee the pay of 'highly compensated employees' at some of the companies that received federal assistance. Feinberg will receive no compensation. Luxury expenditure policies, additional perk disclosures and limits on bonus payments to 'protect Taxpayer investments' are among some of the provisions. In addition, new legislation giving the SEC some "say on pay" authority over public companies is also in the works.

Cross Selling

Analysis by the ABA finds banks on average cross sold 5 products.

Assured Guaranty

The bond insurer that backs many bank municipal issues is said to have outsized exposure to the CDO market according to S&P.

Regulatory Restructure

Details of the new plan are slated to be released by the Administration next Weds.

Special Assessment

Because the calculation for the 2Q FDIC premium accrual (and 3Q payment) is an iterative process, the FDIC has updated its example and Excel-based calculator at:
http://www.fdic.gov/deposit/insurance/initiative/index.html