



Demonstrating marketing effectiveness in financial services

Can the industry go on just turning the handle?

November 2010

After the cost-cutting binge of the last two years, financial institutions now need to work at maintaining and growing customer revenues.

However, the commoditisation of financial products and services means that all players are subject to strong pricing pressures. So rebuilding margins is at least as important as growing volume.

Marketing is often seen as an act of faith, with unhelpful arms races between competitors.

But marketing cannot be immune from the discipline of demonstrating a measurable contribution to desired business outcomes. In these constrained times, the cost-effectiveness of marketing matters more than ever.

"It is very problematic to assess marketing effectiveness; and very important to do so, especially for organisations with large marketing budgets"

Marketing Director, retail financial services

Marketing Directors should be alert to the need to confirm and continuously improve marketing's contribution – and demonstrate this to colleagues.

And the impact of marketing on brand equity is as relevant to the CEO and Finance Director as to the Marketing Director.

"There's a complex dynamic around the motivation of CEO, FD and the Marketing Director – the first two are generally more interested in marketing effectiveness and accountability, and the Marketing Director can't ignore this"

Marketing Director, investment products

OCP and Blonay have collaborated in a research initiative aimed at deepening insights into the effectiveness of marketing in the retail financial services industry.

Our approach, based on structured discussions with industry players, replicated OCP's research into wrap propositions, published in in FTfm in 2007 and repeated in 2008.

Brand equity is the true measure of the effectiveness of the marketing function

Brand equity (the ability to charge a premium price for a product or service which is perceived to provide enhanced value) is an essential yardstick for measuring the value of marketing's contribution.

Sometimes, as in the case of single-brand companies such as Coca-Cola, McDonalds or Microsoft, it is easy to calculate brand value from a simple inspection of the balance sheet.

But where an organisation is made up of several business units each with different brands, or provides separately branded products, then brand equity can only be indirectly inferred by from measures such as premium pricing power.

Marketing has historically used a range of different ways of tracking effectiveness - such as response rates for direct marketing, brand awareness and attitude based on customer research.

But these tend to be short-term measures and don't give true insight into the overall value of marketing activity. Brand equity as a measure of the value of brand(s) has the potential to be a more strategic measure across the whole marketing mix.

Many non-financial companies have built very substantial brand equity, with the intangible items on their balance sheets massively exceeding the tangibles.

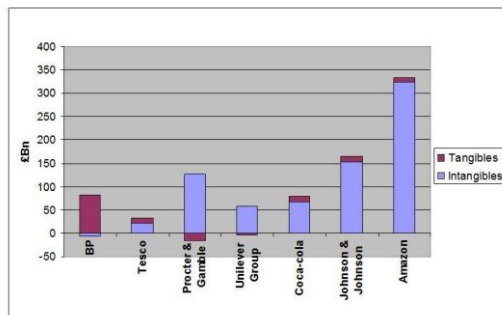
"When the going gets tough, everyone points the finger at marketing. The marketing function should do a better job at communicating its value. It's only possible to understand the value of a brand over a long period of time; there's no simple formula; it requires patience and consistency. You won't get consistent answers in the financial industry about what the brand stands for; but you would if you asked staff who work for John Lewis or Apple"

Former Marketing Executive, investment products

Inspection of the balance sheets of non-financial corporates provides some telling insights. The brand equity of BP is currently negative, following the Gulf of Mexico disaster.

For organisations like Procter & Gamble and Unilever, intangibles exceed tangible assets. All you are paying for when you buy shares in these organisations is the intangible brand equity. And of the companies analysed here, Amazon is potentially the most valuable brand by some margin.

Indicative brand equity as proportion of market capitalisation
Other major corporates with well known brands



The impact of brand equity on pricing strength can sometimes work counter-intuitively. For example, some heavy advertisers such as Dell or Ryanair made initial headway by offering lower-margin products, recovering the cost and making superior profits through greater volume.

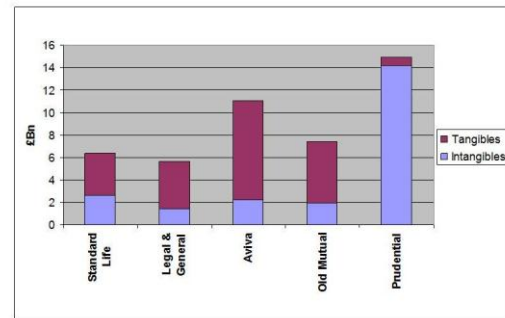
A solution of sulfamic acid and phosphoric acid, Cillit Bang, sells for £2.49 per litre. It seems that associating repackaged bulk chemicals with attributes derived from cosmetics and healthcare does wonders for margins. A luxury grease remover with premium pricing! Would a financial services product with comparable profit margins be greeted with consumer outrage?

The brand equity associated with well-known long-term investment product providers is significantly lower, in proportion to total capitalisation¹, than we see in the major consumer goods companies.

“Financial companies blow hot and cold about marketing; they don’t sustain the effort in the way the FMCG companies would”
Former Marketing Director, life & pensions

¹ Calculation of brand equity is based on inspection of the most recent financial reports of companies analysed

Indicative brand equity as proportion of market capitalisation
Financial services - risk & long term investment



The one exception to this appears to be Prudential, perhaps because of the Pru’s exposure to faster-growing Asian markets.

Building perceived value and trust

Especially for financial companies, consumer trust is a vital ingredient in brand equity. Consumers are more likely to trust and therefore purchase a brand they know.

“The financial services industry has lost consumer confidence. This problem goes back at least 30 years. Customers have always been confused. Financial companies have provided indifferent service, chasing new customers rather than looking after existing. This then leads to increased lapse ratios, and added cost. Increased regulation has also led to commoditisation, which in turn has driven down pricing. In the last few years consumers have become more knowledgeable, more aware and more sophisticated”

Former Marketing Director, life & pensions

The previous rationale for spending money on marketing was to build awareness, which would then build trust and therefore positively impact both sales and margins.

“People were prepared to pay over the odds for our protection products, because they trusted the brand. But this is not a sustainable position. It’s brand equity in reverse – your brand can suffer if you charge more to your loyal customers”

Former Marketing Executive, retail bank

But in financial services loyal customers may often get worse pricing, for example unattractive interest rates for saving or borrowing. However, providers who have promised to reward loyalty by offering the best rates to loyal customers haven’t necessarily cleaned up either.

The normal FMCG product lifecycle (a premium price for new features at launch, which erode over time as the product

matures) doesn't seem to apply in financial services, with notable exceptions such as Fidelity's China Special Situations investment trust which has larger-than-average charges.

To credibly charge more for a financial product, all of the necessary building blocks have to be put in place. Brand equity must be built firstly on greater perceived customer value, and only then realised through achieved pricing power.

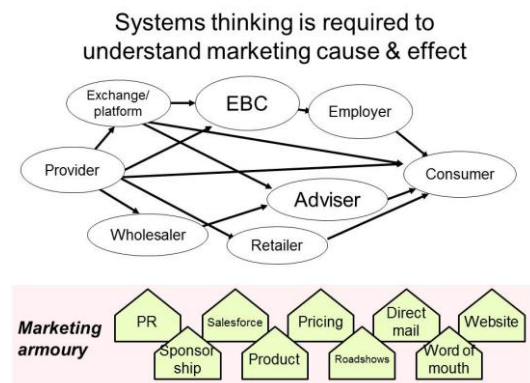
Complex distribution channels make it harder to measure marketing effectiveness

The cause-and-effect linkages between marketing activities and business outcomes in financial services are complex.

Often, there are interactions between many different kinds of entity (wholesale, institutional, distributing and retail) in a complex supply chain, directed towards multiple distribution channels and audiences.

"Television advertising can increase brand recognition but may not directly produce a follow-through in terms either of enquiries or purchases, especially where an intermediary is involved. How do we leverage high awareness to achieve meaningful differentiation and hence real brand value?"
Senior marketing executive, retail investments provider

Standard analytical approaches for measuring marketing effectiveness won't work here. Either the necessary data isn't available, or it's not accessible from parties with whom you don't have a direct relationship.



So a cause-and-effect model needs to be built, to understand the pushes and pulls

and other subtle influences that lead to the desired commercial outcome.

"There are very complex channel dynamics – look at things like the emergence of NEST for pensions, and the influence employers can or will have on individual pensions and investments. And the impact of the RDR on intermediaries will also be major. Sorting out cause and effect amongst all these influences will be very difficult"
Marketing Director, investment products

This leads to the need to build the required systems-thinking capability within the marketing function and then more broadly across the organisation, to understand how the available causes and effects can be used to advantage.

Getting the right strategic mix is crucial

Financial institutions increasingly need to find better ways of convincing customers to prefer their brand – all other things (such as distribution or price) being equal.

Consumer goods companies have known about this for years. A clear and supportable proposition is essential to create brand value, and therefore ensure that marketing money is money well spent.

The large UK financial services advertising spenders in 2009

- Aviva: £48.6m (rebranding)
- Direct Line (part of RBS): £32m
- HSBC: £28m
- NatWest (part of RBS): £27m
- Lloyds Banking Group: £25m
- Confused.com (owned by Admiral): £23m
- GoCompare.com: £22m
- Halifax (part of Lloyds Banking): £22m
- Churchill Insurance (part of RBS): £17m
- MoneySupermarket group: £17m
- Barclays Bank: £16m
- Santander: £15m

Source: Marketing Magazine Top 100 Advertisers
Note: only includes media procured via advertising agencies

A model for deriving a proposition that has worked well for many companies is the "3 Cs" framework, been developed from the original thoughts of well-known business strategists like Michael Porter, and even some less-well-known thinkers such as Treacy and Wiersema².

The essence of the model is that it not just based on a catchy and distinctive message

² The Discipline of Market Leaders, 1995, Perseus Books, Cambridge, Massachusetts

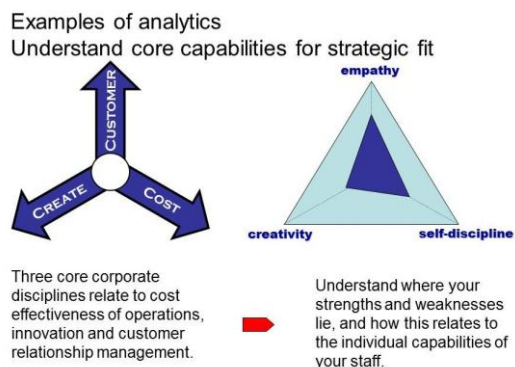
dreamt up by the advertising agency, but is more fundamentally based on what the company does best.

So it is based on real substance, which is supportable and sustainable, and therefore more believable. This is an all important ingredient, often forgotten in marketing campaigns, but essential if the campaign is going to deliver trust, and thereby create a real improvement in brand value.

The 3 Cs stand for Customer, Create and Cost:

- **Customer** is all about Customer Intimacy
- **Create** is concerned with Product Innovation and Leadership; and
- a **Cost** focus builds Operational Excellence and cost advantage.

What this is saying is that there are really only three types of capability on which an organisation can market itself and compete effectively over the long run. It is unlikely that an organisation can excel in all three. But it also would be rare for a market leader not to excel in at least one.



The challenge is to work out which of the three is your core capability, develop a distinctive marketing strategy which reflects this – and then ensure that the rest of the organisation continues to align itself behind and develop this capability.

“This tension is highly relevant to us – we have been customer-focused but now have cost concerns, which relate to the issue of commoditisation, with price becoming a dominant factor. It’s hard to compete on price as a small player in the market. But attempts to make us lower cost, for example via internet delivery, go against the grain of what we are about in terms of building deeper relationships”
Marketing Director, investment products

In our view, an effective proposition needs to be built on distinctive competitive advantage in one of these three “C’s”, with reference to each of the other two.

Addressing the organisational challenge: marketing as the voice of the customer

Putting your chosen strategy in place will inevitably require organisational change.

While Marketing Directors typically manage the marketing budget, keep track of customer insight and are measured on short term sales, the champion of the brand is seen as the CEO. Marketing needs to pick up more of the brand champion role, ensuring that brand positioning attributes are reflected across the organisation.

“Our salesforce isn’t just a method of getting a message out to our distribution partners. They have an essential role in harvesting intelligence from all points of contact.”
Head of Marketing, asset manager

Strengthening marketing activities to enable effective two-way customer communication is more important for the financial services industry than it has ever been.

“The examples of the iPhone and the iPad suggest that financial institutions need to do more to create customer demand. We need much more of a two-way conversation between suppliers and their customers”
Marketing Director, retail financial services

There is a significant opportunity for marketers in financial services to take more of a leading role as consumer insight and brand value champions – to offset the margin erosion happening as a result of commoditisation.

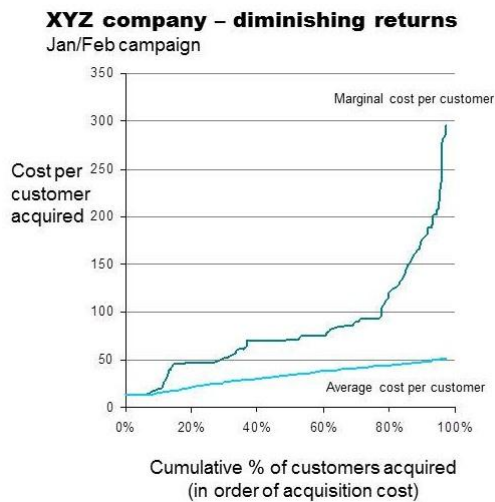
Marketing also has a potentially invaluable contribution in ensuring that the internal realities, as perceived by employees, are consistent with the externally-promoted brand values.

“The brand experience is as much about the employee’s experience of that brand as it is about the customer. It’s about that experience in all the core internal processes, starting with recruitment.”
Head of Marketing, Private Wealth Manager

Why shouldn’t marketing be expected to do better every year?

In all business functions, the input/ output ratio is expected to get better every year.

More is expected to be produced, of higher quality and to a tighter timeliness standard, with less resource, effort and cost being expended.



Unless the concepts of continuous improvement and learning curves are better understood by the marketing function, resources are likely to be over-committed to activities beyond the point where diminishing returns begin.

“Direct marketing hit rates are declining all the time; customer resistance is growing.”
Financial services marketing professional

The big resource consumers (advertising and direct marketing) are very susceptible to the effects of diminishing returns.

“There tends to be a marketing arms race, with people wanting to jump on the bandwagon depending on what their competitors are doing”
Marketing Director, investment products

For many organisations, the different parts of the supply chain don’t mesh together well. For example, very often, only tactical measures of contact centre effectiveness are used, such as call abandonment rates, rather than more strategic measures which would more accurately reflect customer value.

The role and contribution of customer contact points needs looking at in a new light: what value do contact centres add to customers, and to the organisation? Why are customers calling you in the first place? Is it because of a failing elsewhere, either in terms of product design, sales processes or information provision?

Conclusion

Financial services companies should use brand equity measures, based on share price and market capitalisation, as the ultimate measure of marketing effectiveness.

In turn, marketing directors should aspire to a more strategic role as brand and customer insight champions, with responsibilities to look at all aspects of operations that can impact on brand equity.

Their starting point should be translating customer insight and an assessment of organisational strengths and weaknesses into a clear marketing strategy, which defines how the organisation will build brand equity, and hence share value, over time.

“Should we expect it increasingly to be best practice for organisations to spend 5% of their marketing budget on evaluating the results obtained? There’s opportunity to cash in the benefits by reallocating spend away from the less productive activities. It would also strengthen the position of the marketing director by demonstrating the value he’s delivered”
Marketing Director, investment products

This leads, in our view, to some important challenges that the marketing function needs to address:

- how good is your understanding of what your brand stands for and what it’s worth?
- to what extent are the aspirations of the management team aligned with the values of the brand?
- where are your distinctive organisational competences (customer, create, or cost) and how are these reflected in what the brand stands for?
- how is the effectiveness of marketing assessed and how is marketing held accountable for marketing spend?
- to what extent is increasing brand value seen as an integral part of assessing marketing effectiveness?
- what role does the marketing department have in developing clarity around what the brand stands for, and optimising its value?
- how do you track the value of the brand?
- how do you ensure marketing effectiveness is continually improving?
- how much marketing budget is assigned to assessing and tracking the marketing effectiveness and/or brand value?

About OCP and Blonay

OCP is a specialist change partnership. Its members provide advice and resources to organisations engaging in change. OCP uses a consistent and differentiated approach to framing, designing and delivering change.

Since it was founded in 1993 OCP has worked for many leading organisations in the financial services industry, including life & pensions companies, asset managers, investment administrators, regulators and industry bodies, custodians and distributors of financial products.

Blonay is the marketing effectiveness improvement practice led by Jamie MacAlister. Jamie is an experienced marketing professional who learned the marketing trade with Procter & Gamble in their Geneva export HQ, at a time when defending their dominant market share in an individual product line through effective differentiation was high on the agenda.

Jamie's consultancy experience, which includes 12 years with PWC, has covered substantially improving marketing effectiveness in complex, large travel organisations with multiple channels, across Europe in pharmaceutical and consumer goods companies, and improving CRM effectiveness in financial services. He has an MBA from The Wharton School, and an MA in Engineering from the University of Cambridge.

About this report

This research is based on discussions with asset managers, financial software providers, life & pensions companies, distributors of retail financial services products and other financial services marketing professionals. Organisations taking part included AIFA, BlackRock, Bravura, Deutsche, Fidelity, Standard Life and Suffolk Life. In addition our interviewees had prior experience of marketing roles in Barclays, Clerical Medical, GAN, Liverpool Victoria, Lloyds Banking Group, RBS and Scottish Widows

We are also grateful for the comments and contributions of several individual industry practitioners and observers.

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