



# The Financial Case for Employing an MCIF

How MCIF Delivers ROI



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Do you need an MCIF? Maybe you're not sure if you need it, or maybe more specifically, how to articulate "why buying an MCIF is necessary" as you talk it up to senior management. What exactly would your institution get out of having one? Generally speaking, an MCIF is the source and pivot point of strategic information that can be used a number of ways to help you identify and retain your existing clients and help you cost effectively target new ones. The following pages will outline the raw financial benefits of buying an MCIF or hiring an MCIF Service Bureau to deliver these same benefits for you.

### ***Attrition: The Hidden Cost of Financial Institutions.***

Universally, financial institutions of all sizes share one giant risk – 15%\* of all clients leave each year. WOW! How will your organization grow 15%...when 15% of your existing relationships are leaving you? Does this make anyone's brain hurt?

So, why are banks and credit unions alike ignoring this huge business problem? Why are they allowing hundreds of thousands of dollars in profit to walk out the back door, silently – each and every year? Is it because they don't care? Give me a break! Each institution desires to keep their existing clients. So why then is there this expensive churn of clients?

Reason One: Lack of Attention on Attrition. "Reducing Attrition" likely isn't a bullet point highlighted in your institution's strategic plan. So, marketing focuses their dollars and attention elsewhere.

Reason Two: Ignorance of the Problem. Unfortunately, many banks and credit unions are simply unaware of this problem. They are continuing to stuff more new accounts through the opening in the front door, oblivious to the leak out the back.

Reason Three: Lack of Business Intelligence. How can you reach out and touch your clients (especially your most profitable ones) when you aren't sure who they are, or what motivates them to be a client? What would they buy next? How could you better meet their current and future needs? You need knowledge about your existing clients, and the ability to track who is staying, and who is going.

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\*Celent Communications

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Each year, your institution seeks to grow 10%, 12% or more. It is ironic, that in order to grow at all, you will first have to replace the clients who will leave, and annually take hundreds of thousands of the dollars in profit with them. An MCIF can help you identify, segment, track and reach out to your existing clients, so that you can reduce your attrition rate.

What kind of return can you expect from an MCIF if you only want help retaining your existing clients? You should *at least retain* an additional one percent of your clients. Is that meaningful? Statistically, and according to Frederick Reichheld in his book *The Loyalty Effect*, a one percent increase in client retention translates into a 17% increase to the bottom line. So, for every million dollars your institution makes, add \$170,000 to it. Not bad. Is this a good reason to want an MCIF? Yes. Can you imagine yourself being able to accomplish this if you had the right tools?

Let's put this MCIF financial return model to a different test...How many Top clients do you have to save, or further develop, to pay for the tool that lets you identify them? Interestingly enough, you only have to keep a few from leaving. On average, clients in the Top 2% at community banks and credit unions each deliver over \$20,000 annually in profit. Saving only one or two great clients per year pays for the MCIF. What you do beyond that could impact profit dramatically.

## ***Is Direct Marketing Dead...or have we been Dead Wrong?***

Is your marketing department churning out direct mail offers without regard for results? An MCIF measures everything, including the ROI of marketing campaigns.

Classically, most MCIF purchases have revolved around marketing's interest in more efficiently managing and measuring direct marketing campaigns. MCIF systems pay for themselves in two ways: 1) by reducing mailing expenses (by not targeting everyone with the same offer, and by not sending multiple offers to account holders in the same household); and 2) as a means to segment the client base into likely target groups who have a need and a higher likelihood to respond to an offer. It has been said many times that the success of a direct mail offer is 70% dependent on the relevance and accuracy of the list. Today's MCIF systems allow you to measure the anticipated ROI of various direct marketing activities so you can prioritize on those campaigns which will deliver the greatest contribution to the bottom line!



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Typically financial institutions also desire to market to high value/targeted prospect lists. These lists can be augmented by purchasing demographics and lifestyle codes that further your accuracy in creating an offer that is meaningful to these prospects (and/or even your own clients.)

More sophisticated institutions have used an MCIF direct mail management tool called "matrix mailing" to start and manage an "onboarding" process. Why is this meaningful and what is "onboarding"? Onboarding is a marketing technique which will systematically reach out to new relationships with phone calls and direct marketing letters/e-mails 4-5 times over the course of the first 90-120 days. Why do this? Because it is in the first 90 days when the majority of all cross-selling is likely to happen with a new relationship. In fact, a recent study showed that 60% of cross-selling success comes within the initial 30 days of a new client relationship. So, onboarding can be regarded as critical as it creates loyalty by cross-selling your newest relationships.

There are numerous examples of small community institutions that have generated hundreds of thousands of dollars each year in measurable results with their MCIF, through highly tracked direct mail. Campaigns that target overdraft protection, skip-a-pay plans and even specific product promotions are tried and true ways you can use the MCIF to produce profit that benefits the institution. Evidence of direct marketing success is so proven on a broad scale that some vendors will even guarantee that the MCIF will generate profits in excess of the first year purchase price, if a few basic campaigns are run. If nothing else, an MCIF will add discipline to your direct marketing and an ROI component that it has been missing.

### ***Re-Pricing your Products:***

Imagine evaluating rate and fee changes to your products without using the back of an envelope. MCIFs can measure the anticipated impact to the bottom line based on rate and fee changes and the resulting migration and attrition.

The process of pricing your products is a fluid event. How do you currently manage this and track or measure the impact of the changes you propose or actually do make to your existing account types and product lines? Is the result what you expected? Are you even measuring the impact

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of your changes, after the fact? Candidly, many do not buy an MCIF with the intent of better managing product pricing, although they should. Yet from those who have used this real profit generating feature, it is fascinating to hear their amazing results. Banks and credit unions alike benefit from re-pricing through greater fee generation and increased balances; the profit from which can be counted on year after year. This single tool, known as “what-if” has the potential to add significant profits to any institution.

While there are many success stories related to product re-pricing, for the purposes herein we will discuss just one. A small community based financial institution in Illinois found real bottom-line results after attending to their price and fee schedule. In this situation, they had to address re-pricing after merging together three small institutions with completely different rates and pricing structures for products. In addition, the combined new entity had much lower than usual non-interest fee income vs. their peers. With the help of their MCIF's “what-if” feature, this institution found a way to unify the pricing throughout the surviving entity, protect top clients from feeling the effect of any increase fees, and even implemented a higher fee structure to what ended up being about half of their client households. They subsequently revisited their fee/tier formula each eighteen months. Across five years, this small institution added **over \$2,000,000 to their bottom-line**. So, is there money in re-pricing your accounts? Absolutely! Can an MCIF help? Yes.

It is likely that someone at your institution is responsible for managing your products and services, and the corresponding fee, rates, etc. that you charge for them in the market. How much more effective can this person be with a tool that will actually enable them to predict the outcome of proposed changes or even the impact of real changes that you do make? An MCIF will make you money with this concept alone. How much? What-if...

### ***Mapping: Where are your best clients...and prospects?***

Communicating your past and current performance, market opportunities and risks is dramatically easier with mapping. The mapping embedded into MCIF software makes it easy to marry your performance against market demographics, opportunity and your delivery channels...

The Federal Reserve Survey from 2004 lists that 46% of customers and members choose their bank or credit

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union because of location and 23% choose it because of service. Mapping where your clients are in relation to your facilities can be a powerful indicator of where you choose your next location, or how you can deliver even better service to them. Mapping allows you to measure where your most profitable clients are located, as well as the location of high value prospects. The amount of statistical and demographic data that can be gleaned for purposes of marketing communication or even site selection is one that few organizations can do without. As an additional source of information, mapping will absolutely make the difference in identifying successful new sites.

The uses for mapping extend far beyond site selection. Understanding the demographics of an area can afford insights to CRA targets as well as penetration in each market. The uses are only limited to your imagination.

### ***Reports and Knowledge:***

It has been said many times that “knowledge is power.” In “banking,” the tool that delivers this client intelligence is an MCIF.

Reports that easily highlight your key business information and profit drivers are uniquely provided by MCIF systems alone, because they have performed both profitability and householding of your raw account data. It is in these data enriching functions that your client knowledge comes to life, both strategically and tactically.

Candidly, many financial institutions have largely shunned market intelligence for gut instinct and market experience. Why? Indeed. Especially as the information produced by MCIF systems will set the table for strategic planning and then the execution of that strategy which follows. Most systems have pre-built reports that help unlock these opportunities. Many systems also have the ability to export that data to report writers that allow you to create specific reports that speak to your needs. In any case, without delving into specific report styles common in the MCIF industry, the benefit of the reports themselves is they present you with information you cannot ignore. As inexpensive as MCIF systems are today, or an MCIF Service Bureau (where experts run your MCIF for you), what is the risk of not knowing...or the harm?

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## **Summary:**

Competition is getting fiercer. The market is getting even more segmented. What will you do differently to get your share of your market's opportunities? Do you know your best relationships? Can you afford not to know? After all, your toughest competitors are already chasing your top clients in the hope of stealing them away from you.

Unlike a Data Warehouse, which tends to collect as much information as possible (to be all things to all people), an MCIF's purpose is specific to marketing, profitability and sales. And also unlike a Data Warehouse, all of the filters, reports and answers can be easily obtained (most pre-built) by anyone using the MCIF. MCIF technology picks up where the data warehouse leaves off. It makes clear the essential and fundamental knowledge about your business that enables you to deliver results with Retention, Direct Marketing, & Re-Pricing, etc., using the built-in mapping and reporting tools to gain knowledge. In addition, an MCIF is a building block of a successful transition towards CRM.

Financial institutions who commit to use an MCIF (regardless of size) will generate many times the investment for the MCIF – in increased profits. As you explore how an MCIF could benefit your financial institution, think about you and your schedule, and maybe what brings you joy. Do you have more time to invest in something else? The question is not **can** you, but **will** you? These tools are extremely affordable and dramatically easier for any level of user – as compared to even 3-5 years ago. And while having an MCIF is extremely worthwhile, without you being able to invest a day or two a month, you may not get the full return on its capabilities. If this sounds like your situation, explore an MCIF Service Bureau. This will enable you to direct the activities of an MCIF database marketing expert who works just like an extension of your staff.

Is there a financial benefit to MCIF solutions? Absolutely. And hopefully after reading this you would readily agree. Once you understand the benefits, the only question which remains is can you do it...or should you hire an outside expert to deliver the results you expect?



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