Going to Market

Tony Masters and Anthea Wynn look a the thorny issue of how credit and marketing departments can learn to love one another and maximise profits

Conflict between the credit and marketing functions still occurs in many organisations - when both departments perceive that the other is working against them to thwart their own objectives. It arises when the following conditions co-exist:

- Both departments have independent organisational structures with independent reporting lines.
- Departmental goals and objectives are often at odds with each other.
- Meaningful communication between the departments is limited and infrequent.

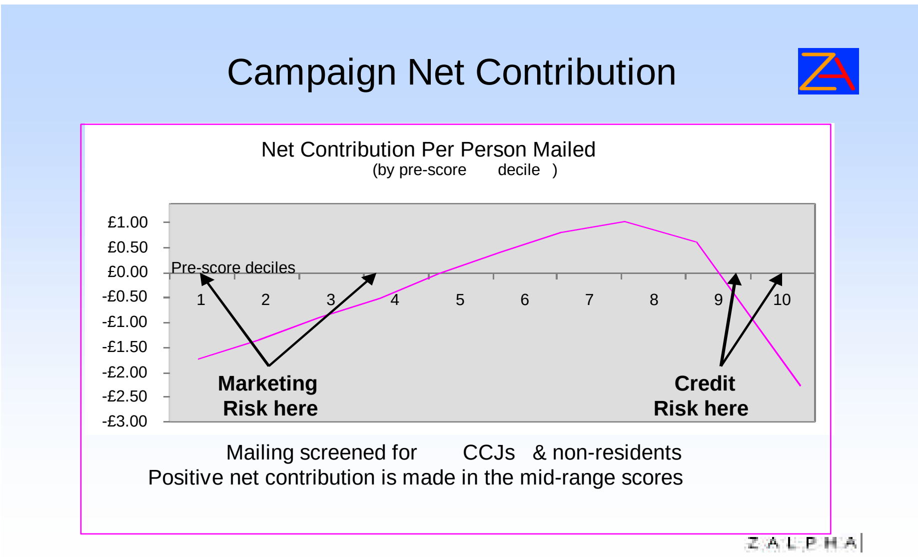
Twin roles

Credit departments are targeted to minimise debt exposure within a bad debt budget whilst marketing departments are tasked to bring in as many new customers as possible within a given marketing budget. Both these functions and objectives are critical for achieving profit for the lender. But neither department is tasked to achieve a target that maximises profit, or a surrogate such as net income.

So the credit department wants to avoid worst credit risk, and pushes the marketing department to find only good-risk customers. While the marketing department knows that good-risk customers don't want much credit so they target mailings to people who will respond, i.e. bad risks.

Credit card case study

The effects of a credit card pre-scoring test make this dichotomy very obvious. To check the efficacy of its pre-scoring a credit card lender pre-screened a mailing against CCJs and non-residents, allocated scores, divided the mailing into score deciles, and mailed everyone. Post-application scoring was used to find the likely debt. The results are given in the chart below which shows net income figures (vertical axis) after the costs of marketing, fulfilment and debt, from a marketing campaign.



It is clear that there is risk at BOTH ends of the pre-scoring scale. There is risk of debt at the higher end, but there is also significant risk of wasting the marketing budget at the lower end.

This marketing risk arises because the most creditworthy people have little interest in new credit and are less likely than average to respond, use, or roll-over credit on a new card.

Profit can only be made in the middle of the scale – an area which neither credit nor marketing traditionally see as the primary target.

What is required in this example is that both departments are targeted jointly on the same objective, i.e. maximising net contribution. At a campaign level this means working to a measure like:

"Maximum net good credit take-up per £1000 campaign cost, measured, say, 6 months after application"

This still stresses the importance of credit risk assessment, measured at 6 months after application so that early debt is taken into account. But it also emphasises that the overall target is maximum lending – and hence profit.

Resolution

The above example illustrates that it is possible for credit and marketing to successfully work together to achieve the common goal. The next step is therefore to make this a permanent and standard feature of the lender's corporate structure and culture. Achieving this will require some major changes, the single most important requirement of which is communication. It must be frequent, effective and involving everyone concerned with new business.

In a more practical sense, adopting an integrated departmental structure (incorporating common functions and skills) working towards common goals and objectives, with common systems to glue the whole together will unite the two functions. Some of the issues to be considered in this process are:

- Merging two dichotomous functions begs the question of who is best suited to run the new department – a marketing man, a risk man, or none of these.
- Integrating the functions and skill sets is not difficult as both departments are heavily dependent on analytic skills, scorecards (and scorecard development) and database expertise.
- The integrated department should work to a common, measurable target. The previously conflicting objectives can be combined into a financial measure of success that caters for the responsibilities of both functions. The measure quoted above is but one example.
- Sophisticated strategy manager systems (commercially available), which can be used by both credit and marketing can form the basis for working together to mutually plan and fulfil campaigns that take into account all the necessary risk and marketing requirements.

Deep down, you all know that this problem won't go away and that it needs to be faced. It is likely that those lenders which have achieved some competitive edge may well have done so (at least in part) *because* they have sorted this out. If we, as two individuals from opposing camps, can work together to write this article, then we challenge both industries to follow suit.

(First published in *Credit Today* supplement, *Credit Extra,* September 2000)