

Breathe New Life into Your ATM Program with Progressive Marketing and Customer Relationship Management Tools

With ATMs saturating the market and declining revenues per machine, forward-looking financial institutions are rethinking their ATM strategy and moving toward exciting new technologies.

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Introduction

Much to the dismay of the financial services industry, the ATM gold rush of the last 12 years is drawing to a close. Since the introduction of surcharges in 1996, automated teller machines (ATMs) have served as a significant source of revenue for financial institutions. However, changes in consumer behavior, market saturation and rising operational costs have led to declining ATM profitability in recent years. Financial institutions must now reconsider their ATM strategies as they face a profound transformation in the ATM banking landscape.

Although consumers continue to list the location of ATMs as one of their most important criteria in choosing a financial institution, data from industry experts like Dove Consulting, the American Bankers Association and others show the average number of transactions per machine is declining, as is the average revenue per machine.

The 2006 ATM Deployer Study conducted by Dove consulting revealed average transactions per machine decreased between seven and eight percent from 2004 to 2006. This comes even as the total number of ATMs in the United States declined from a peak of almost 400,000 in 2005 to approximately 360,000 at the end of 2007, according to the March 2008 EFT Databook, produced by *ATM & Debit News*. This trend can be explained, in part, by the continued increase in the use of credit, debit and prepaid cards, which grew from 29 percent of all transactions in 2001 to 42 percent of transactions in 2006. This increase in payment card transactions has reduced the need for consumers to withdraw cash as frequently. In February 2008, the *Boston Globe* reported consumers have grown weary of paying ATM surcharges and have subsequently reduced their visits to ATMs—a trend that is likely to accelerate during the current economic slowdown. In addition, ATM profitability has suffered because of increases in operational costs, especially costs associated with compliance and security, and maintenance of outdated legacy software and hardware.

Given these changes, financial institutions must make important decisions regarding their ATM fleets, and many will react by pulling unprofitable machines, and delaying or forgoing upgrades on remaining machines. First Data believes that financial institutions may be inhibiting their growth if they devise strategies based on the premise that ATMs are simply cash dispensing machines. In order to compete in a difficult economic environment, financial institutions must take advantage of ATMs as important mechanisms for building and enhancing customer relationships.

As the most highly used customer access channel in retail banking, the ATM is a critical customer touch point. Recent ATM innovations offer financial institutions the opportunity to transform the ATM from a cash dispenser to a customer relationship management tool, helping to enhance loyalty among all customers, particularly those who almost exclusively use the ATM. From transaction personalization to customized, one-to-one marketing capabilities, the future of ATMs is in their value as customer relationship and marketing vehicles, allowing financial institutions to mitigate the trend of declining ATM profitability while maximizing the potential of their ATM programs.

This paper covers new developments in the ATM industry, most notably the transition from proprietary and OS/2-based software to more flexible Windows®-based operating systems that are changing ATM functionality and interfaces. It also highlights opportunities for shifting the ATM experience from a homogenous customer encounter into a more targeted user experience.

The State of the ATM Industry

The first full-service ATMs were introduced in the early 1970s, but it was not until the mid-1980s that the ATM became part of mainstream banking, giving financial institutions the unprecedented opportunity to provide customers with around-the-clock banking services. During the last three decades, the deployment and use of ATMs has grown exponentially, with units popping up not only at financial institution branches, but also in convenience stores, shopping malls, fast food restaurants and various other retail outlets. The primary purpose of ATMs during their initial phase was to offer convenience to customers, as well as to provide a lower-cost customer service channel for simple transactions like deposits and cash withdrawals.

The proliferation of ATMs accelerated when financial institutions realized that in addition to providing a cheaper and more convenient way to service customers, the surcharges associated with the ATM had the potential to add up to a significant amount of revenue—a figure that reached \$4.4 billion in 2007, according to Bankrate.com. Since ATM surcharges were introduced in April 1996, the number of ATMs in the United States has nearly tripled, with much of the growth fueled by independent operators entering the market. By 2007, independently operated ATMs accounted for nearly half of all machines.

The traditional metrics used for gauging ATM performance—transactions, revenue and profit per ATM—have been declining in recent years, indicating the density of ATMs per capita has likely now reached unsustainable levels. Industry trade publication *The Green Sheet* agrees, asserting in July 2007 that “the domestic industry is mature and may have reached saturation.” In addition to possible over-penetration of ATMs in the market, consumers are more frequently turning to debit and credit cards rather than cash to pay for purchases, resulting in fewer trips to the ATM. At the same time, the cost of regulatory compliance, security, cash replenishment and back office operations continues to increase. A study conducted in 2006 by Dove Consulting shows that the average ATM has now become unprofitable—with expenses exceeding revenues by \$340 to \$437 per month for the average ATM.

Yet even as profit margins and use declines, consumers continue to view ATMs as an essential banking channel, and for many consumers the ATM has replaced the in-bank experience. A 2006 survey by the American Bankers Association revealed ATMs are the most used banking channel for 26 percent of consumers. As a result, financial institutions continue to deploy new ATMs, even as overall the total number of ATMs declines (due to machine attrition). The number of ATM locations offered by a financial institution can represent a significant competitive asset, regardless of declining overall use. As surcharge rates for non-bank customers continues to rise, the value customers place on convenient, free access to ATMs becomes an important tool for financial institutions in attracting and retaining customers.

The perplexing new role of the ATM as a popular and formerly lucrative banking channel that now loses money is leading financial institutions to redefine how they analyze the value of their ATM fleet.

- If the ATM is not a stand-alone profit center, then is there value in the ATM as a full-function customer delivery channel?
- Or, is the ATM simply a machine for dispensing cash?

Financial institutions that answer “yes” to the latter question will develop strategies to minimize their investment in ATMs, such as reducing the number of machines and offering customers a functional, but generic user experience. However, failing to extract maximum value from a key strategic asset like an ATM fleet could be a costly mistake, especially during what may be a deep and painful recession.

In order to compete successfully in a difficult economic environment, it is in the best interest of many financial institutions to leverage their ATM investment. Recent advances in ATM technology offer new opportunities to transform the ATM from a cash dispenser into an effective customer relationship and marketing vehicle.

ATM Use

Approximately eight billion ATM transactions are performed in the U.S. annually, with cash withdrawals accounting for three-quarters of transactions. Other standard transactions, such as deposits, transfers and inquiries represent the balance, with only about two percent of consumers performing “advanced functions” (bill pay, mini statements, stamp purchase) at the ATM.

Source: Dove Consulting

What’s New with ATMs

Even though the basic functionality of ATMs has remained relatively unchanged since their introduction almost four decades ago, recent technological progress is giving ATMs new life—and providing important opportunities for financial institutions to profoundly change the ATM’s role in customer interactions.

Microsoft® Windows®-based ATM Operating Systems and TCP/IP Communications

Perhaps the most important development in ATM technology is the decision by ATM manufacturers to open up system architectures by deploying Windows-based operating systems instead of the OS/2-based proprietary systems that ATMs have been running for years. While the migration to Windows creates some security-related operational challenges, the new systems are much easier to connect to back-end applications, such as customer relationship management (CRM) software, and require less customization and integrate easily with “off-the-shelf” products for ATM enhancement. The new systems also have the potential to provide a dramatically more engaging user interface and overall customer experience.

The introduction of TCP/IP (the Internet Protocol suite that includes Transmission Control Protocol and Internet Protocol) communications for ATMs provides much faster connections for processing transactions, which gives financial institutions the ability to send and receive more data, such as graphics and real-time promotional messages, without slowing down the total transaction time. This results in an increased capability for banks to use highly customized target marketing to cross-sell products to ATM users.

Transaction Personalization

Transaction personalization gives financial institutions the opportunity to provide a more engaging and less time-consuming ATM user experience by customizing the most frequent transaction conducted at the ATM—the withdrawal. To speed up the transaction time, this service allows cardholders to create a “profile” at the ATM with the ability to choose their “fast cash” amount, as well as language and receipt preferences. ATM users simply enter their PIN and confirm the transaction, instead of inputting an average of 17 to 20 keystrokes for each transaction. These personalization enhancements not only improve the customer experience, they also shorten the transaction time, making each ATM more efficient.

First Federal Savings and Loan Association of Charleston, a First Data customer, implemented transaction personalization in April 2006 to allow account holders to customize fast cash amounts and specify defaults for receipt issuance, preferred language and other options. In the first month of availability, 15 percent of customers adopted the service, and after three months, 27 percent of customers had adopted it. The transaction personalization service has become an immense success, and today, half of all new cardholders enroll in it.

Graphics Capabilities

Until recently, the ability to modify the ATM screen or use graphics was inefficient and expensive for financial institutions. Graphics had to be installed manually at each ATM by financial institution staff or an ATM service provider. The introduction of Microsoft Windows software and TCP/IP communications makes it markedly easier for financial institutions to distribute graphics to their ATM fleets. Now it is relatively simple for a financial institution to remotely modify marketing messages across its ATM fleet or at individual ATMs to cross-sell banking products and services, as well as promote the financial institution's brand. Many ATM deployers integrate rotating graphics and marketing messages, or even use video to communicate with ATM users while the customers wait for their money or receipt to dispense. With this capability, and the ability to tie into the financial institution's CRM application, the ATM is suddenly transformed from a stand-alone cash dispenser into a one-to-one customer relationship and direct marketing vehicle.

"It's a great service. Our customers value it because it makes the transaction so much faster—they are not asked the same questions every time they visit the ATM."

Robbie Snyder,
Senior Vice President
of Support Services,
First Federal Savings
and Loan Association
of Charleston

Deposit Automation and Check Imaging

Deposits have always been part of the standard ATM transaction offering, representing about eight percent of transactions, but picking up and processing deposits on a daily basis for each ATM can be costly for financial institutions. Today, though, advanced ATM hardware and check imaging technology for scanning checks, along with legislation passed in 2003 giving substitute checks the same legal status as original paper checks, have paved the way for check imaging at the ATM. The benefits associated with imaging check deposits include cost savings, extended deposit cut-off times, reduced check fraud and increased ATM deposit volumes. Implementation of the technology does require a significant investment, but the resulting operational savings can be substantial.

The ATM—An Untapped Marketing Channel

According to a Direct Marketing Association report, the \$13.4 billion U.S. financial institutions spent on direct marketing in 2007 generated \$178.8 billion in sales, and provided the best return on investment in this sector, at \$13.37 in revenue per dollar spent. Yet the American Bankers Association reports that, in spite of this relative success, financial institutions are still only attaining response rates of one and a half percent or lower from direct mail efforts. With newspaper and magazine readership decreasing rapidly and "do not call" lists reaching 50 million subscribers, the traditional options for reaching customers with targeted marketing messages are narrowing. The tightening of the lending environment is also affecting marketing efforts, as financial institutions cut back on direct mail while seeking less expensive alternatives for reaching consumers.

Go directly to your customer. A key tenet of effective (and cost efficient) marketing is to go where the customers are—and for financial institutions, a good portion of their clients and prospects are at ATMs. According to the Tower Group, by 2010, 59 percent of an average customer's interactions with a financial institution will come via the ATM and online channels, making these self-service delivery channels not just

a convenience for customers, but a primary point of banking. In addition, these channels provide a captive audience for marketing purposes as customers wait for pages to load or transactions to complete. The Tower Group estimates there are roughly 200 trillion seconds of "Please Wait" messages annually on ATMs—the perfect opportunity for financial institutions to provide a personalized marketing message to each user.

Personalize the message for your customer. The newer ATM technologies also offer financial institutions the ability to manage marketing campaigns remotely. Graphics and messages can be downloaded from a central location to individual ATMs or to groups of ATMs, allowing for local and regional marketing campaigns or even campaigns targeted to a specific ATM location. One customer of First Data's targeted marketing solution conducted a pilot with a sample size of 33 prequalified existing account holders for home equity lines of credit, and used the solution to cross-sell the lines of credit—resulting in 13 new sales (a 40-percent penetration rate).

The advent of Windows-based ATMs, simple ATM integration with CRM software and TCP/IP communications make it easier and less expensive for financial institutions to create and distribute targeted marketing campaigns. Customers are easily identified through their cards at the ATM, which makes personalized marketing fairly straightforward. For example, financial institutions can promote specific credit card, mortgage or other financial products specifically to those ATM users who are prequalified. Other customers and non-customers may see alternate types of promotions at the ATM, including online banking or deposit account offers. Financial institutions also can monitor how each customer responds to an offer and rotate messages depending on the response. Or, for even more effective results, financial institutions can integrate their systems with powerful marketing analytics tools that allow more complex, real-time responses as customer data is gathered. This will help to dramatically increase the effectiveness of ATM marketing by applying complex predictive algorithms based on customer demographics, behavior and preferences.

Use your ATMs as an effective marketing channel. Using advances in technology to transform the ATM into an effective marketing channel provides financial institutions a host of benefits, and for return on marketing investment, the ATM has the potential to become a profit center once again.

- **Customization** – Through transaction personalization options, customers can preset their preferences for the types of transactions they want to perform and the information they want to receive, which leads to feelings of personalized relationships and loyalty
- **Brand reinforcement** – ATM screen graphics and messaging can be made consistent with the financial institution's other marketing channels, reinforcing messages with each ATM transaction
- **Cross-sell opportunities** – One-to-one targeted messaging via an ATM can result in higher response rates than from other marketing channels. Additionally, financial institutions have the opportunity to cross-sell to non-customers who use the financial institution's ATMs
- **Customer Data** – Marketing programs can be refined even further to target customers based on user information and specific responses (i.e., customer data) captured at the ATM
- **Cost savings** – ATM marketing campaigns can be less expensive to create and distribute than marketing through traditional direct channels
- **Advertising** – Some financial institutions have partnered with local merchants to deploy ATMs in their locations, offering coupons and other incentives to drive ATM traffic and increase merchant ticket sizes

Conclusion

With increasing ATM operational costs, fewer transactions per ATM and decreasing direct ATM profitability, financial institutions are taking a new look at the role ATMs have in their strategic plans. As Windows-based ATMs become the standard, ATMs have the potential to evolve from cash dispensing machines into customer-centric portals. Financial institutions may retain or gain an edge over the competition by leveraging the advanced functionality that is now available—and given the current economic environment, First Data strongly believes it is an optimum time for financial institutions to capitalize on this opportunity.

Financial institutions that do not leverage their ATMs as customer relationship tools and marketing channels are missing the opportunity to mitigate the accelerating decline of direct ATM revenue and profitability. For many customers, the only significant interaction they have with their bank is via the ATM—so it is essential this contact is convenient and engaging for the customer, as well as persuasive and profitable for the financial institution.

All of these objectives can be accomplished if financial institutions breathe new life into their ATM fleets with enhancements like transaction personalization and targeted marketing. The competitive ramifications of these innovations should certainly not be overlooked, either. ATM transactions represent a unique opportunity for financial institutions to communicate with non-customers, which comprise 20 percent of on-premises transactions and 49 percent of off-premises transactions, according to Dove Consulting. This communication with non-customers occurs through promotional messages marketing the financial institution's products and services, and also through the quality of the transaction experience itself—which can be dramatically improved with an upgraded ATM system.

Currently there are more than 400,000 ATMs in use throughout the U.S., and industry research group Celent predicts Windows-based ATMs—which provide the greatest opportunity for targeted ATM marketing—will increase from 46 percent of machines in 2007 to 69 percent in 2009. As these next-generation systems proliferate more widely, ATM marketing to non-customers will become pervasive and aggressive, and no financial institution can afford to stand idly by while its competitors use ATMs for brand reinforcement and direct marketing.

Once financial institutions make changes to turn their ATM fleets from cash dispensers to customer relationship and marketing channels, they also have to change their way of measuring the effectiveness of the investment. It becomes obvious that the old metrics for measuring ATM profitability—revenue per machine, transactions per machine, etc.—will no longer apply. The effectiveness of an ATM fleet or an individual ATM becomes tied to more complex measures like cross-sales per machine, retention of ATM users versus non-users, new customers per machine and others. Understanding these more relevant measurements will enable financial institutions to better devise and execute their new ATM strategies.

The Global Leader in Electronic Commerce

First Data powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. Serving millions of merchant locations and thousands of card issuers, we have the expertise and insight to help you accelerate your business. Put our intelligence to work for you.

First Data offers comprehensive, cost-effective solutions that can help financial institutions maximize their ATM program. Whether your financial institution has one ATM or a fleet of thousands, First Data can provide the tools and expertise to take your ATM program to the next level. Our customer relationship tools, including text and receipt messaging, transaction personalization and one-to-one marketing, can help you strengthen customer relationships by improving the cardholder interaction at the ATM, while enhancing cross-sale and revenue opportunities. Our performance management products, including ATM monitoring, remote key transport and remote balancing, as well as online research and reporting tools, can help you improve operational efficiencies, maximize your headcount and gain greater control over your ATM program.

For more information, please visit http://www.firstdata.com/product_solutions/atms/index.htm.

About the Author

With 18 years of industry experience, **Mary Knich, Vice President of ATM Services at First Data**, is responsible for the development and management of First Data's ATM product suite. Mary also maintains relationships with First Data's ATM equipment partners. Prior to assuming responsibility for First Data's ATM products, she worked on new and existing product development for First Data's STAR® Network.

Mary has been with First Data for eight years. Prior to joining First Data, she worked at eFunds where she held a variety of roles in project management, account management and business development. Mary has an MBA from Cardinal Stritch University in Milwaukee, Wisconsin.

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