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Charles Schwab & Co., Inc.: The "Talk to Chuck" Advertising Campaign

It was January 2006, and Charles Schwab & Co., Inc.'s Chief Marketing Officer Becky Saeger and Charles Schwab (known to his employees as "Chuck") were reviewing the nine-month results of the company's new "Talk to Chuck" (TTC) corporate advertising campaign.

Saeger and Chuck hoped the TTC campaign, which included a colorful series of television ads that used animated images of customers talking frankly about their investment needs, had revitalized the flagging financial services brand. Chuck had approved the campaign after coming out of retirement in July 2004 to reclaim his role as CEO of the $4.2 billion company he founded in 1971. Two decades of rapid growth as a provider of quality financial services at reasonable prices had placed Charles Schwab & Co., Inc. (Schwab) at the forefront of the brokerage industry. But as competition intensified through the early 2000s, Schwab had found it harder to straddle the divide between full-service competitors such as Merrill Lynch and discount brokers such as Ameritrade and E*Trade. By early 2004, revenues were flat, and net income had declined by 39% in just 12 months.

Upon his return as CEO, Chuck cut both costs and prices to restore the brand's perceived value among retail investors and hopefully improve market share. Though the corporate marketing budget was among the first to be cut, Saeger had argued that brand-building initiatives would have to play a role in driving future growth and brand revitalization. Six months into the TTC test market, she persuaded management to invest a further $30 million in the TTC campaign for the fourth quarter of 2005. She was confident that the campaign could take at least some credit for Schwab's turnaround: a 6% increase in revenue from year-end 2004 to 2005 and a 153% increase in net income for the same period.[1] As she reviewed the year-end results, Saeger believed the campaign was proving successful but wondered how much she could persuade the CEO and CFO to budget for the TTC campaign in 2006. Should she maintain a steady level of spending or increase the investment?

[1] The Charles Schwab Corporation announced 2005 revenues of $4,464 million versus $4,202 million in 2004 and net income of $725 million in 2005 versus $286 million in 2004.

Industry Background

In 2005, the U.S. financial services industry comprised three major sectors—banking, securities and commodities, and insurance – which together managed $49 trillion in client assets.[2] Financial services firms provided individuals, corporations, and other institutions with access to and management of assets. With the evolution and mainstreaming of the Internet and the November 1999 passage of the Gramm-Leach-Bliley Act, which allowed insurance companies and commercial and investment banks to cross into one another's businesses, price competition intensified, and some services, such as basic brokerage trades, began to commoditize.

The securities industry managed client assets of $10.5 trillion in 2005.[3] Retail brokerage firms (operating within the securities and commodities sector) gave their customers access to asset management accounts such as retirement plans and mutual funds and to fixed-income securities and equities (e.g., publicly traded stocks). Essentially acting as intermediaries between buyers and sellers of tradable financial instruments, brokerages ran the gamut: discount brokers offered little assistance beyond executing a customer's transaction, while full-service brokers also provided investment advice on which stocks to buy and sell and when. In the United States, retail brokerage was a $356 billion industry in 2004, dominated by such players as Ameritrade, Schwab, E*Trade, Fidelity Investments, and Merrill Lynch. Schwab had revenues of $4.2 billion in 2004.

Retail brokerage in the United States dated back to the launch of the Philadelphia stock market in 1790, but modern retail brokerage began in earnest in the early 1900s. Traditionally, investors turned to their brokers for research and advice to guide their investing decisions. By the end of the twentieth century, the emergence of affordable personal computers, the Internet, and fast networking systems made information—once the tightly held property of institutions and their brokers—widely and conveniently available to individual investors, who used the technology to look up real-time stock quotes, news on industries, and analyst reports on companies. Moreover, technology allowed investors to sell or buy securities online. Indeed, at its peak in early 2000, online retail traders accounted for nearly one-third of the trading volume on the New York Stock Exchange.[4] The stock market decline following the collapse of the Internet bubble in 2001–2002 motivated individual investors to become more investment savvy and independent.

During this period, the number of wealthy individuals with significant assets to invest also increased in the United States, creating more demand for asset management services. By 2003, millionaire households numbered 3.8 million out of 90 million U.S. households.[5] Although commissions on individual transactions continued to make up the lion's share of brokerages' revenue, a shift to service-based fees was evident. The fee-based approach typically involved an annual charge of between 1% and 3% of assets under management in return for which the client paid no brokerage commissions on individual trades. By 2006, asset management fees accounted for almost 15% of retail brokerage revenues.

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[2] "Assets of Financial Services Sectors by Industry, 2004–2005," *Financial Services Fact Book*, Board of Governors of the Federal Reserve System, http://www.financialservicesfacts.org/financial2/chartindex/chart/ppartid.734110/, accessed August 3, 2006.

[3] Ibid.

[4] Lauren Bender, "Retail Online Brokerage Trends," July 12, 2005, http://www.03.1bm.com, accessed June 29, 2006.

[5] Millionaire households were those having $1 million or more in investable assets, excluding primary residences or company-sponsored retirement programs. Jeanne Sahadi, "Millionaires on the rise," CNN Money.com, September 30, 2003, http://money.cnn.com/2003/09/29/pf/millionaire/q_millionairesmultiply/, accessed July 21, 2006.

Charles Schwab & Company

In 1975, the U.S. Securities and Exchange Commission deregulated brokerage commissions, and Schwab "set out to reshape the whole industry" by charging as much as 75% less per stock transaction than the large brokerage firms.[6] The company became the first discount self-service brokerage firm to allow investors to manage their assets and make transactions without the help of traditional brokers. Unlike traditional brokerage houses such as Merrill Lynch, Schwab was not involved in investment banking and therefore not subject to possible conflict of interest in its stock recommendations.

Schwab grew quickly. In 1983, Bank of America acquired the company for $57 million, but four years later Schwab management led a successful leveraged buyback for $280 million and, shortly thereafter, went public.[7] In 1995, Schwab reached a milestone: the opening of its millionth customer account. In 1996, Schwab launched an online trading platform, and within two years, the company had 2.2 million clients using its website to buy and sell securities.[8]

In 1997, Schwab cut its equity trade price to $29.95—an industry low—and was named the "King of Online Brokers" by *Forbes* magazine. By 2004, Schwab went beyond discount brokerage to offer a broad range of financial services through three business divisions: Schwab Investor Services (in effect, the company's retail storefront); Schwab Institutional, which served independent fee-based advisor firms; and U.S. Trust, which served affluent individuals, families, and institutions. Schwab, with over 7 million accounts and $1.2 trillion of client assets under management, had become one of the largest financial services firms in the world. Its 2005 revenues topped $4.4 billion, net income of $725 million, and 14,000 employees. (See **Exhibit 1** for a summary of Schwab's financial performance.) **Table A** shows Schwab revenue by business unit.

Table A Schwab Revenue by Business Unit, 2001–2005 ($ millions)

	2005	2004	2003	2002	2001
Schwab Investor Services/Individual Investor	2,742	2,615	2,517	2,643	2,756
Schwab Institutional	803	725	670	704	734
U.S. Trust	832	773	629	660	689
Unallocated	87	89	80	84	87
Total	4,464	4,202	3,896	4,091	4,266

Source: Company documents.

Chuck had always served as Schwab's chairman. In late 1997, he appointed David Pottruck, his former president, to serve as co-CEO. Six years later, as part of a corporate governance upgrade, Chuck relinquished his co-CEO position (he maintained his chairmanship), and Pottruck became sole CEO in January 2003. But during a meeting of company directors in July 2004, the board took note of a deepening rift between the company and its retail customers, which was causing a decline in

[6] "Charles Schwab," *Fortune Small Business*, September 2003, http://www.ebsco.com, accessed June 26, 2006.

[7] Ibid.

[8] Charles Schwab, "The Story of Schwab, Our Evolution," Charles Schwab Hong Kong website, http://scheab.com.hk, accessed June 23, 2006.

profitability and market share. Schwab's position as the low-cost industry provider had been trumped by Ameritrade, E*Trade, TD Waterhouse, and others that offered lower equity trade prices than Schwab. In 2003–2004, Schwab's relative prices had increased rather than decreased. "We lost our connection with our clients and our marketplace," explained Chuck. "In our heritage, value was crucially important, and we weren't providing good value." Two days later, Pottruck resigned, and Chuck returned as CEO.

Marketing at Schwab

Once back at the helm, Chuck introduced an aggressive, companywide cost-cutting program. "We had to do some really important reengineering of the company before I could do anything—including a new campaign," said Chuck. Starting in mid-2004, Schwab implemented $341 million in annualized cost reductions against an expense base of approximately $3.3 billion. Schwab trimmed $508 million in 2005, representing a cut of 15%. As part of these moves, Schwab's corporate brand marketing budget was reduced, and most marketing expenditures were channeled through the business units (see **Exhibit 2** for 2003 through 2005 advertising expenditures).

Saeger joined Schwab in April 2004 after spending seven years as head of marketing at Visa. She oversaw Schwab's marketing organization, which had evolved, by 2006, to that shown in **Exhibit 3**. Saeger faced the immediate challenge of convincing Schwab executives to reinvest again in a central brand-building campaign: "When others on the team said to me, 'Corporate brand advertising doesn't work,' I agreed. I said, 'You're right; the way we've done it in the past hasn't worked.' But I knew we could do better." Saeger believed that the Schwab brand image needed revitalization. In her view, the company had priced its brokerage services too high vis-à-vis its low-cost competitors and had erred by restricting customer access to research and information according to a customer's transaction volume. "We felt a 'do or die' urgency," explained Saeger. "Chuck said we had offended our customers. We had let them down. Schwab was a strong brand but not as great as it once was; it was getting rough around the edges. Investors didn't trust anybody—including us."

Saeger noted that, until 2004, the company's brand advertising had been haphazard (see **Exhibit 4** for sample ads from Schwab's 2002–2003 campaigns). Schwab's marketing emphasis had been on creating direct-mail and e-mail campaigns for specific products and services with minimal and inconsistent investments in corporate brand advertising:

> We have traditionally focused on direct marketing campaigns to sell specific products. At one point in 2003 we had six major direct marketing campaigns running simultaneously. We were using multiple advertising agencies that were tripping over each other. We were collecting an enormous amount of data, but we weren't using it strategically. We knew we needed to make a change.

Schwab's advertising expenditures were under pressure at a time when many of its top competitors were increasing their budgets (see **Exhibit 5**).[9]

Client Segmentation

Schwab used four approaches to segment its U.S. retail consumers:

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[9] Note that measured media advertising expenditures were a subset of total marketing expenditures.

- Investment attitudes. Consumers differed in self-confidence regarding their ability to manage their assets and in their willingness to delegate decisions to or seek support from financial advisers.
- Life stage. Consumers at different ages had different financial objectives, concerns, and risk profiles.
- Investment style. The company examined the consumer's mix of assets and investment vehicles as an indicator of their receptivity to risk.
- Hidden assets. Schwab consumers differed in their dollar levels of liquid, investable assets that were *not* invested at Schwab.

Any Schwab client could be placed into one of the segments in each of the four classifications, and their combined profile would suggest the appropriate marketing initiatives. For example, a confident investor with a young family, with an aggressive investment style focused on individual securities and $10,000–$100,000 in hidden assets, might receive messages about less risky investments such as exchange-traded funds or equity-bond mutual funds that would still appeal to his or her confident nature, as well as about planning for his/her children's education and the products Schwab offered that could assist in this objective.

In 2005, a further segmentation study investigated the investment attitudes of U.S. investors and how they wished to interact with a broker. This study identified the four segments shown in **Exhibit 6**. Mapping Schwab's client profile against these four segments showed that Schwab's client base was underweighted in the high-touch segment and overweighted in the self-assured segment. **Table B** maps Schwab's client base segmented by investment attitudes against the four U.S. investor segments.

Table B Schwab's Client Base Segmented by Investment Attitudes

		Schwab Retail Segmentation—Investment Attitude Dimension			
		Advice Seekers— 25%	**Confident— 25%**	**Concerned— 30%**	**Indifferent— 20%**
U.S. Investor Segmentation	High Touch	61%		5%	3%
	Self-assured	18%	100%	32%	38%
	Not My Top Priority	1%			35%
	Unsure	20%		63%	24%

Source: Company documents.

In addition to these total market segmentation studies, Schwab market researchers commissioned segmentation studies of subsegments to guide communications that might further deepen Schwab's customer relationships. For example, Schwab identified five subsegments of active traders and determined the messaging strategies appropriate to each. Conversion rates for offers mailed for each subsegment were tracked closely, and marketing budget allocations were fine-tuned based on the results.

Measuring Loyalty

An important metric in the financial services industry was net new assets—the value of new assets deposited with Schwab less the assets withdrawn in a specific period. If a company's share of net new assets did not match the overall growth of net new assets for the industry, its market share was declining.

Schwab studied closely the reasons why assets were withdrawn to see whether improved marketing could have retained them. In some cases, withdrawals were uncontrollable: a client might need to liquidate stock investments to buy a new house, or the death of a client might result in the heirs shifting the funds to the firms they used. A 2005 survey of Schwab clients found the most frequently cited reasons for moving assets out of Schwab:[10]

- Needed money for major purchases (21%)
- Wanted to invest less in stocks (12%)
- Change in personal situation (11%)
- Wanted lower commissions and fees (9%)
- Wanted more investment advice (8%)

The percentage of clients leaving for lower commissions and fees had been as high as 35% in early 2004 with discount brokers receiving 45% of the assets withdrawn. In response, Schwab significantly lowered its prices. By 2005, assets withdrawn were migrating in similar percentages to full-commission brokers (such as Merrill Lynch), discount brokers (such as TD Waterhouse and E*Trade), mutual fund companies (such as Fidelity), banks, and other financial institutions (including insurance companies).

A Declining Brand

In 2004, Schwab management commissioned Landor Associates to conduct a Brand Asset Valuator (BAV) study. The BAV methodology examined a brand's differentiation, relevance, esteem, and knowledge. Differentiation and relevance were considered measurements of brand strength; esteem and knowledge were measurements of brand stature.

The study concluded that, between 2002 and 2004, Schwab's perceived differentiation (and therefore the likelihood of investors considering the brand) declined considerably. (See **Exhibit 7** for a summary of the three-year trend for the Schwab brand on each of the four BAV dimensions.) The study indicated that Schwab, by 2004, looked less like a leading-edge discount broker and more like a full-service broker.

A further 2004 study of brokerage customers by advertising agency Hill Holiday underlined the BAV results. Schwab scores on "momentum" and "innovation" were as follows:

Momentum:	Company on the way up	11%
	Company holding steady	73%
	Company on the way down	16%

[10] The study surveyed Schwab clients who showed at least a 60% market-adjusted statement equity reduction from the previous 12-month high.

Innovation:	More innovative than ever	10%
	Innovation holding steady	67%
	Less innovative than it used to be	23%

To again become differentiated, Schwab had to be seen as more innovative, progressive, trendy, up-to-date, social and approachable, daring, worth paying more for, and gaining in popularity. Achieving this would give the brand greater perceived marketplace momentum—a key driver of differentiation. Schwab's scores on relevance, the second component of brand strength, depended on trust in the brand and the level of perceived customer centricity; scores on these were satisfactory. However, a change in emphasis from relevance to differentiation could not distract from the need to sustain Schwab's scores on the relevance measures.

"Talk to Chuck"

After initiating cost reductions and rolling back price increases, Chuck turned his attention to Schwab's marketing. In September 2004, Schwab invited four agencies to compete for its advertising account. "We had identified investors' 'pain points' and knew that there was a client satisfaction gap with both individual brokers and the industry as a whole," explained Ben Stuart, vice president for brand strategy and brand advertising. The pain points included excessive broker commission on stock trades, overwhelming mutual fund selection options, and stock recommendations based on opinion rather than fact.

Euro RSCG, which counted Volvo and Nestle among its clients and was the world's fifth-largest global advertising agency, was one of the four agencies. Schwab's advertising goal was to exploit the satisfaction gap and broaden the brand beyond the discount brokerage arena: to position Schwab as a company from which "mass-affluent" investors—those with $50,000 to $2 million in investable assets[11]—could comfortably seek reasonably priced advice that could be the basis for a long-term relationship. "After our initial meeting, we knew we needed to communicate the founder's vision," said Israel Garber, the agency's creative director. "During the meeting everyone kept referring to 'Chuck' as in 'Chuck says this' or 'Chuck would do that.' I kept saying to myself, 'Who are they talking about?' Later, when an agency staffer who had formerly worked at Schwab told us that everyone called Mr. Schwab 'Chuck,' we came to appreciate the personal relationship that investors could come to have with the brand through the founder and chairman."

For the pitch meeting that followed, Euro RSCG created a speculative campaign to demonstrate its creative acumen to Schwab. "We recognized that the rest of the category was very formal, so we decided to try to leverage Chuck the man by casting that informality more broadly to Chuck the company," said Garber. The agency presented several sample print ads, each emphasizing Schwab's accessibility. A proposed new tag line—"Talk to Chuck"—contrasted with the formality of traditional Wall Street advertising. The TTC campaign was a clear winner with Schwab executives. "I saw the creative and said, 'This is it. This is the man. This is why people come here. This is why people work here. This is it,'" recalled Saeger.

Saeger and Euro presented strategy and showed sample executions of the campaign in various media to Chuck. (See **Exhibits 8a, 8b, 8c,** and **8d** for sample print ads, billboards, coffee sleeves, online ads, and television storyboards.) "Chuck is a more traditional marketer, so we held our breath when we showed him the idea. But we needn't have worried: he got it," said Saeger. "The goal was to communicate Chuck's core values—not his persona—and we knew the campaign could do that."

[11] Investable assets excluded funds in retirement plans and real estate.

Chuck agreed: "I thought the campaign would be successful because it went back to my original roots and reflected how I marketed the company earlier in my career. In that early advertising, we used my picture and made a commitment to giving customers great service. There was a person, a soul, a personality behind it. TTC has some of the same elements, but in an updated format that does not use my picture."

The campaign targeted "mass affluents": 35- to 54-year-olds with between $50,000 and $2 million in investable assets—a demographic that made up 8% of the U.S. population and 20% of U.S. investors. Schwab saw its target customers as confident, financially concerned investors.

The campaign could be extended to all marketing touch points, including billboards, print advertisements, direct-mail packages, online (itself 20% of the budget), branch communication materials and collateral, sales training, and television commercials. To create the four television commercials, the agency used live-action digital video of actors portraying investors and employed special software to make the images look "painted." The technique, called rotoscoping, stripped away the visual clutter common to most television advertisements and made the actors seem animated and approachable. The scripts called for the actors to talk candidly about their relationships with their brokers, focusing on particular pain points. For example, one ad portrayed a man who wondered aloud about the wisdom of paying high commissions; in another, an investor pondered how to deal with a low-performing stock.[12] In each case, the "answer" was to "Talk to Chuck." Stuart noted that "approachability" was a brand equity that had continued to differentiate Schwab from competing brands and was confident that the agency had built this advantage into its work.

Designing the TTC Test

Saeger had a 2005 corporate brand marketing budget of only $16 million—and what she believed to be a surefire, winning campaign. "We needed to prove to the company through test marketing that the campaign would pay back the investment," said Stuart. The Schwab team intended to measure campaign success by tracking net new assets and the number of new households investing with Schwab. "To meet our growth objectives, new customers were the priority," said Stuart. Saeger knew the hurdle was high: "We earn 42 basis points on every dollar we bring in, so we had to attract about 250 times the campaign expenditure in net new assets to break even."

It was clear to Saeger that TTC needed to be field tested to justify a higher level of funding: "I was the new kid on the executive committee, and I thought, 'I need data to support a launch.' We decided to spend almost the entire 2005 brand budget on the test."

The team selected three test markets. They first identified 26 markets, each with at least 1% of the total U.S. population. The resulting list was then narrowed using six market-selection criteria. Stuart commented: "We wanted cities where neither we nor our competitors were headquartered. We also wanted to make sure that they were 'matchable' from a BDI/CDI[13] perspective and that they were cities where we had a strong field sales presence." In addition, the team considered geographic dispersion, demographic composition (a high concentration of $250,000 portfolios was a requirement), and media affordability. "We looked for markets with efficient and affordable media so we could

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[12] Theresa Howard, "Schwab ads' message goes for a tone of 'candid and real,'" *USA Today*, January 16, 2006, USA Today website, http://www.usatoday.com/money/advertising/adtrack/2006-01-16-schwab_x.htm, accessed June 29, 2006.

[13] BDI, Brand Development Index, refers to the percentage of U.S. households that purchase a brand. CDI, or Category Development Index, refers to the percentage of U.S households that make purchases within a category of products. For Schwab, the BDI is the percentage of U.S. households with assets under management at Schwab; the CDI is the percentage of U.S. households with assets under management with any brokerage firm.

implement a variety of test scenarios," explained Stuart. The team selected Chicago, Denver, and Houston as its test markets (the three markets accounted for 6% of Schwab's invested assets) and matched each one with a similar control market, Washington, D.C., Phoenix, and Dallas, respectively. "This allowed us to control for the risk of unforeseen events such as a public emergency, severe weather, or competitive response—all of which could impact the results of our test," said Stuart.

The test ran from April 2005 through September 2005, encompassing traditionally strong—and weak—sales months. "Our business is seasonal. During the first quarter, we usually have strong IRA [individual retirement account] sales—good flows from January through April. May and June are good, but July and August are slower months. We rebound in September, and the fourth quarter is strong," said Saeger.

All three test markets received the same mix of local television, newspaper and print ads, billboards, and radio proportionate to the population. "Even though each market received the same mix, we were creative in selecting communication media that had not been used traditionally by financial services firms," explained Stuart. "We advertised on coffee sleeves, put ads in office-building elevators, and designed customized sponsorships."

The test cost $15 million, including the cost of the television advertising media (100% price premium to buy locally) and production of the commercials. The budget weight of advertising tested was equivalent to a $100 million national campaign. The direct marketing campaigns that were part of Schwab's 2005 marketing budget continued to run as planned in both test and control markets.

Chuck himself got involved in the test. "I personally went to the test cities and met with many Schwab field representatives to make sure they were comfortable with the Talk to Chuck concept. I wanted them to be able to say, 'I talked to Chuck today, and I can talk to Chuck tomorrow if I need to,' and play their role in supporting the campaign," said Chuck.

Reviewing the Results

Schwab's market research compared consumer attitudes about Schwab—and its competitors—before and after the advertising test period in the test and control markets. On most measures, consumers rated Schwab more favorably in the test markets as the campaign progressed (see **Exhibits 9a** and **9b** for test results).

Additional tracking results for the test versus control markets are summarized in **Exhibit 10.** Those consumers who recalled the TTC campaign unaided were more likely than nonrecallers to consider Schwab (+6 points), to view Schwab as a unique alternative (+5 points), and to agree that Schwab as a company was gaining ground (+7 points).

The team also measured customer attrition to learn whether the TTC campaign dissuaded customers from moving their business to the competition. "Curtailing attrition is our largest business opportunity, and we found that we had a 5% reduction in attrition in the six months between April and September 2005," Stuart explained.

Call-center customer contacts and field sales activities were measured, and both increased. "We were anxious, and perhaps we pushed it through a little bit. Because of the urgency to test the new campaign, we didn't pretest it on our employees, and we didn't feel it was necessary to train the field sales representatives," said Saeger. "Because frankly, we didn't need to train our employees in how to be 'like Chuck.' Our employees know what it means to be like Chuck and implicitly understand the behaviors and values that Chuck embodies." One team of call-center employees started a contest called "I am Chuck" where employees who "handled calls the way Chuck would" received a special award and recognition. “Given the recent history of constantly changing ad campaigns, the field sales representatives were less than enthusiastic about the new campaign,” said Stuart. “Even though we only have around 2,000 customer-facing reps compared to Merrill Lynch’s 14,000, we still rely on their support.” In order to garner support for the campaign beyond the marketing group, Schwab hosted a series of town halls with Chuck himself in the test markets. “These town halls provided a way for Chuck to officially give the field permission to ‘Talk like Chuck.’ After the town halls concluded, we established a special ‘Talk to Chuck’ e-mail address where the field reps could continue the dialogue with Chuck,” noted Saeger.

Saeger viewed two metrics as critical: “We wanted in particular to look at new accounts and net new assets from new households, and both increased as a result of the TTC campaign.” (**Exhibit 11** reports results on these two metrics in both test and control markets nine months after the test began.)

Planning for 2006

By the third quarter of 2005, results on the tracking metrics were strong enough that Saeger sought to extend the campaign nationwide. During September 2005, Schwab’s net new assets increased by $6 billion (10%) over the previous month and net new assets for the third quarter were 80% higher than those for the third quarter of 2004. As a result, management felt that it could afford to boost the 2005 marketing budget from an originally planned level of $160 million (including $15 million for the TTC test) to $195 million (including $30 million for the fourth-quarter national TTC launch).

By December, Schwab’s financial results for the calendar year 2005 revealed a 6% increase in revenues over 2004’s and a 153% increase in net income (from $286 million to $725 million). Results for the fourth quarter showed an 11% increase in revenues and a 253% increase in net income (from $53 million to $187 million) over the fourth quarter of 2004.

Saeger believed the TTC campaign was groundbreaking, but would Chuck view the metrics as strong enough to warrant the $200 million marketing budget being proposed for 2006? Of this, $55 million was slated to be allocated to the TTC brand campaign. Advertising would be concentrated or “pulsed” during January through April and September through November, when consumer investment activity and new account openings were especially strong. Saeger hoped that net new assets generated in the first quarter of 2006 would be sufficient to allow the budget to be increased even further.

Exhibit 1 Selected Financial and Operating Data for Schwab, 2001–2005

Year Ended December 31	2005	2004	2003	2002	2001
Results of Operations (in millions except as noted)					
Revenues					
Asset-based and other revenues[a]	3,685	3,117	2,706	2,603	2,685
Trading revenue[b]	779	1,025	1,190	1,341	1,383
Total revenues	4,464	4,202	3,896	3,944	4,068
Expenses					
Compensation and benefits	1,902	1,877	1,665	1,846	1,895
Occupancy and equipment	331	389	430	456	470
Professional services	253	245	175	172	196
Depreciation and amortization	208	226	277	317	331
Communications[c]	192	223	228	256	331
Advertising and market development	178	184	139	208	243
Restructuring charges	17	214	76	358	402
Impairment charges	0	0	5	37	0
Other	198	199	184	45	73
Total expenses excluding interest	3,279	3,557	3,179	3,695	3,941
Income from continuing operations	730	414	476	149	75
Net income	725	286	472	109	199
Basic earnings per share	0.56	0.21	0.35	0.08	0.14
Dividends declared per common share	0.089	0.074	0.050	0.044	0.044
Performance Measures					
Revenue growth	6%	8%	-1%	-3%	-22%
Pre-tax profit margin from continuing operations	26.5%	15.3%	18.4%	6.3%	3.1%
Return on stockholders' equity	16%	6%	11%	3%	5%
Financial Condition (at year end)					
Total Schwab assets	47,351	47,133	45,866	39,705	40,464
Long-term debt	514	585	772	642	730
Stockholders' equity	4,450	4,386	4,461	4,011	4,163
Client Information (at year end)					
Client assets under management (billions)	1,199	1,081	967	765	846
Net new client assets (billions)	75.0	50.3	56.2	47.6	73.6
Active client accounts (millions)[d]	7.1	7.3	7.5	8.0	7.8
Independent investment advisor client assets (billions)	406	348	287	222	235
Independent investment advisor client accounts (thousands)	1,413	1,316	1,239	1,182	1,082
Number of domestic offices	328	273	376	422	429
Daily average revenue trades (thousands)	198	156	141	134	160
Average revenue earned per revenue trade	$15.61	$26.34	$34.06	$37.78	$35.02
Accounts that traded during the year (millions)	2.7	2.7	2.7	2.9	3.0
Employee Information					
Full-time equivalent employees (at year end, thousands)	14.0	14.2	16.0	16.4	19.2
Revenue per average full-time equivalent employee (thousands)	323	269	245	214	183

Source: Company documents.

[a]Included asset management and administration fees, net interest revenue, and other revenues.

[b]Commission and principal transaction revenues.

[c]Communication expenses include all non-marketing communication with Schwab clients, including statements, transaction confirmations and maintenance of toll-free telephone lines.

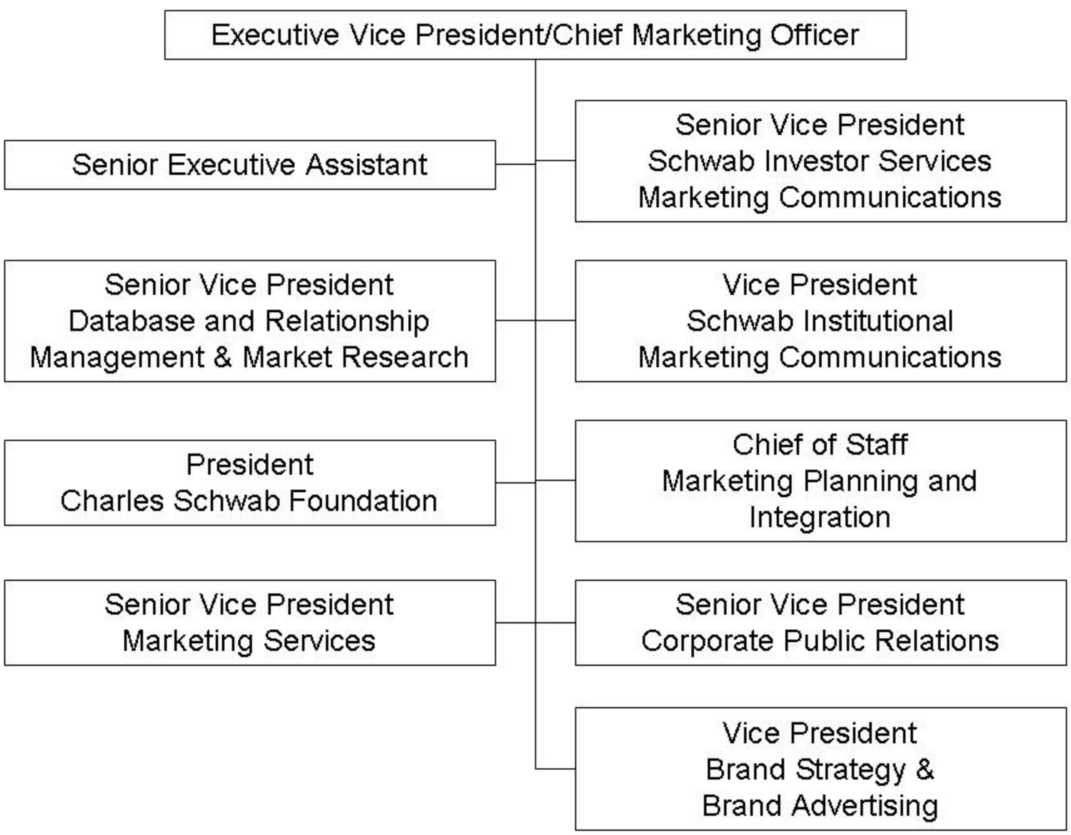
[d]Accounts with balances or activity within the preceding eight months.

Exhibit 2 Schwab Advertising and Market Development Expenditures, 2003–2005 (in thousands)

	2003		2004		2005	
	($)	(%)	($)	(%)	($)	(%)
Brand Advertising (including Media and Production)	66,049	48%	75,214	41%	55,950	31%
Product and Client Marketing	$ 21,183	15%	$ 26,515	14%	$ 28,194	16%
Sponsorships	$ 16,697	12%	$ 15,941	9%	$ 15,157	9%
Miscellaneous market development	$ 35,000	25%	$ 66,166	36%	$ 78,535	44%
GRAND TOTAL	$138,929	100%	$183,836	100%	$177,836	100%

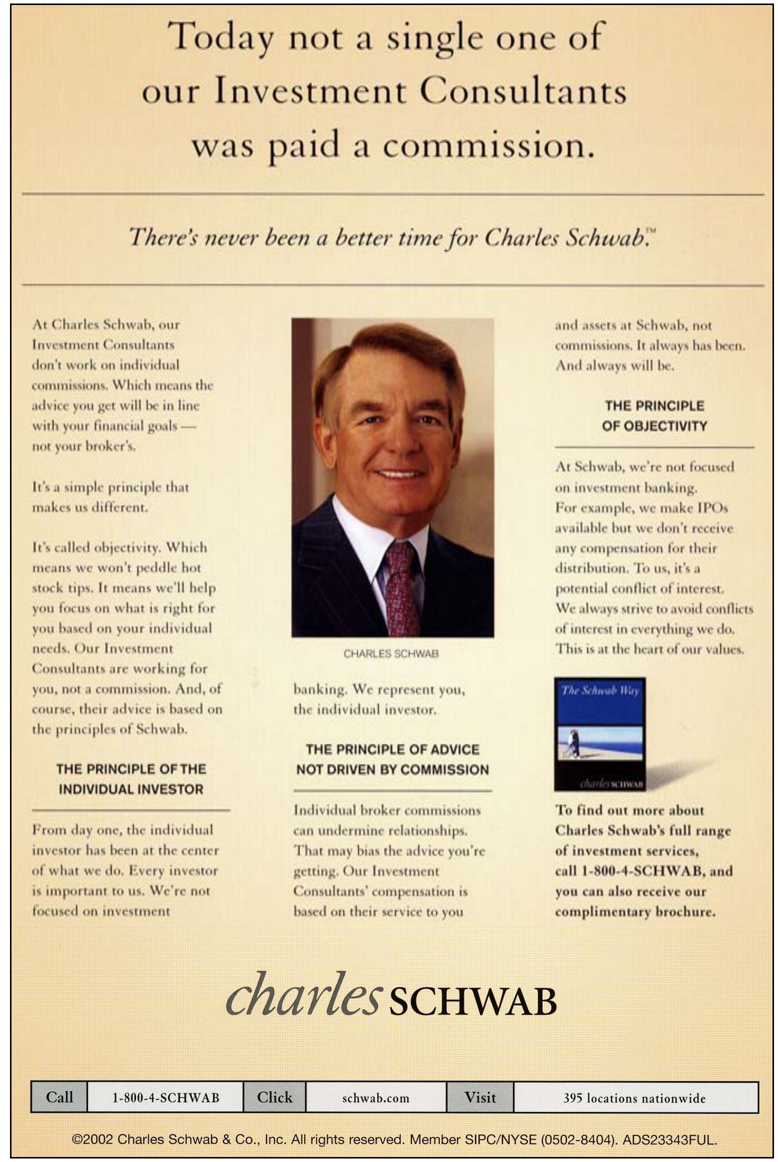
Source: Company documents.

Exhibit 3 Schwab Central Marketing Organizational Chart, Q1 2006



Source: Company documents.

Exhibit 4 Schwab Print Advertisements, 2002–2003



Source: Company documents. For educational purposes only.

Exhibit 5 U.S. Advertising Expenditures for Retail Brokerage Firms, 2004–2005 ($ millions)

Top Advertisers	2004 ($)	2005 ($)	% Difference
Fidelity Investments	$ 89	$108	21%
TD Waterhouse	56	73	30%
Charles Schwab	83	72	-13%
E*Trade Securities, Inc.	28	69	146%
Merrill Lynch	10	20	100%
All other brands	740	809	9%
Category Total	1,005	1,151	15%

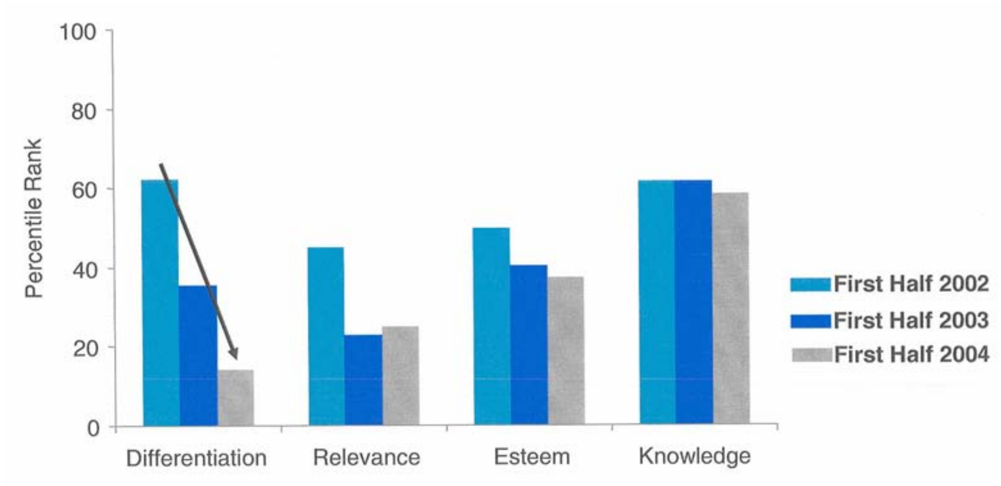
Source: Adapted by casewriter from Competitrack/company documents.

Exhibit 6 Four Segments of U.S. Investors

	Self-Assured	Not My Top Priority	High Touch	Unsure
Attitudes	• Self-Directed	• Self-directed/or no direction	• Confident in their own investment abilities	• Not confident in their own investment abilities
What Are They Seeking from a Broker?	• Low trade commissions • Unlikely to pay for advice	• No clear preferences • Unlikely to pay for advice	• Knowledgeable and unbiased financial consultants • Proactive account monitoring • Willing to pay for advice	• Knowledgeable and unbiased financial consultants • Proactive account monitoring • Many are willing to pay for ongoing advice
% of U.S. Investors	18%	13%	33%	36%
% of U.S. Investor Assets	44%	11%	22%	22%

Source: Company documents.

Exhibit 7 Three-Year Trend for Schwab Brand in Brand Asset Valuator (BAV) Study



Source: Company documents—BAV survey of U. S. investors.

Note: Schwab's percentile rank above was based on retail consumer opinions of a sample of consumer goods and services companies.

Exhibit 8a TTC Sample Print Advertisement

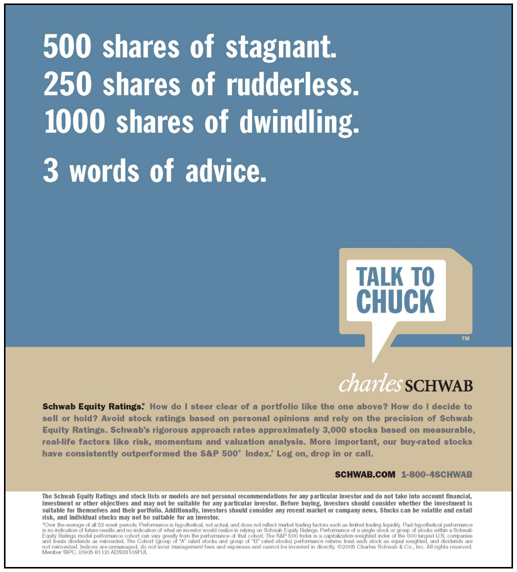
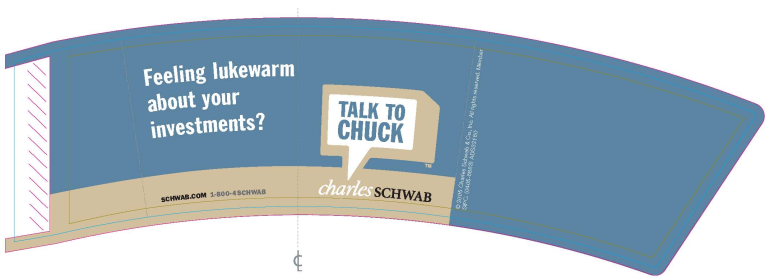


Exhibit 8b TTC Sample Billboard Advertisements

Exhibit 8c TTC Sample Coffee Sleeve and Online Advertisements



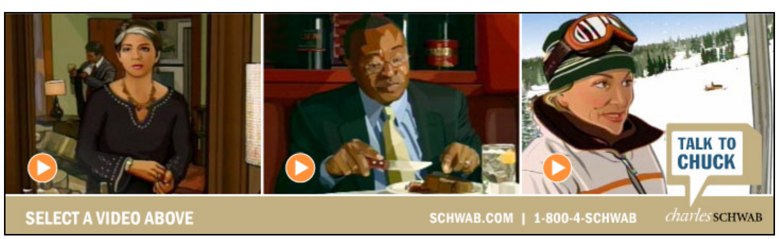
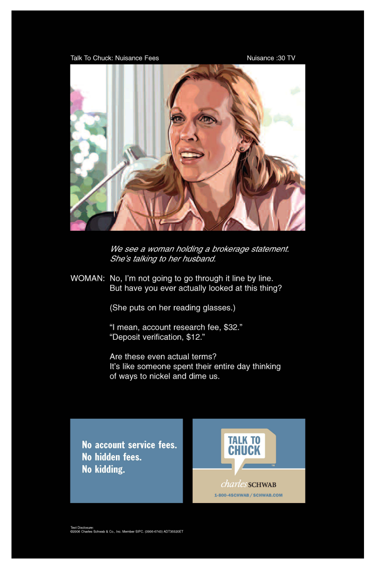


Exhibit 8d TTC Sample Television Advertisement Storyboard



Source: Company documents. For educational purposes only.

Exhibit 9a Consumer Attitudes toward Schwab in Advertising Test versus Control Markets, Q4 2005 versus Q1 2005

	Three Ad Markets vs. Three Control Markets (weighted)	Chicago vs. Washington, D.C.	Denver vs. Phoenix	Houston vs. Dallas
Unaided brand awareness	+9	+3	+16	+21
Consideration (to open account)	+8	+5	+14	+5
Good value for money	+11	+18	+1	+12
Unique alternative to other financial services firms	+11	+4	+11	+15
Offers what's right for you	+5	+3	+6	+12
Challenges the industry on behalf of investors	+6	+13	+1	+11
Net brand momentum (gaining ground-losing ground)	+11	+11	+9	+15
Is growing more popular	+18	+22	+17	+13
Hearing a lot about lately	+7	+17	+6	+3

Source: Company documents.

Note: Numbers indicate the difference in consumer attitudes at the end of Q4 2005 between test markets (those markets that received advertising—Chicago, Denver, and Houston) and control markets (those markets that received no advertising—Washington, Phoenix, and Dallas).

Exhibit 9b Nationwide Ad Recallers versus Ad Nonrecallers, Q4 2005

	Ad Recallers	Ad Nonrecallers
Unaided Brand Awareness	38%	32%
Unaided Ad Awareness	26%	16%
Purchase Consideration Rating	23%	17%
Brand Momentum: % who agree, "Charles Schwab is gaining ground as a firm that provides investing and trading services."	23%	16%
% who agree: "Charles Schwab is a unique alternative to financial services firms."	13%	8%
% who agree: "Charles Schwab is a company you are hearing a lot about lately."	29%	17%

Source: Company documents.

Exhibit 10 Ranking of Financial Services Companies Based on Responses to National Consumer Tracking Survey, Q4 2005

	Schwab	Merrill Lynch	Fidelity	Vanguard	E*Trade	Ameritrade	TD Waterhouse
Unaided Company Awareness	1	3	2	4	5	7	6
Consideration (to open account)[a]	2	4	1	2	5	7	6
Good Value for Money[b]	1	7	4	2	2	5	6
Unique Alternative to Other Financial Services Firms	3	7	5	4	1	2	6
Offers What's Right for You	1	4	2	3	5	7	6
Challenges the Industry on Behalf of Investors	2	5	4	1	3	6	7
Net Brand Momentum (gaining ground-losing ground)	4	7	6	3	1	2	5
Is Growing More Popular	3	7	5	4	1	2	6
Hearing a Lot About Lately	1	6	5	7	2	4	3

Source: Company documents.

Note: National tracking survey of investors with at least $25,000 in invested assets.

[a]Schwab and Vanguard tied for 2nd place ranking.
[b]Vanguard and E*Trade tied for 2nd place ranking.

Exhibit 11 TTC Test Market Results after Nine Months

Metric	Control Markets (baseline)	Lift in Test Markets
New Accounts		
New households	100	125
Existing households	100	98
Total	100	111
Net New Assets		
New households	100	137
Existing households	100	273
Total	100	205

Source: Company documents.