

RETAIL BANKING: Customer Segment Performance Blueprint



A WEB-BASED
PERFORMANCE
MANAGEMENT
APPLICATION

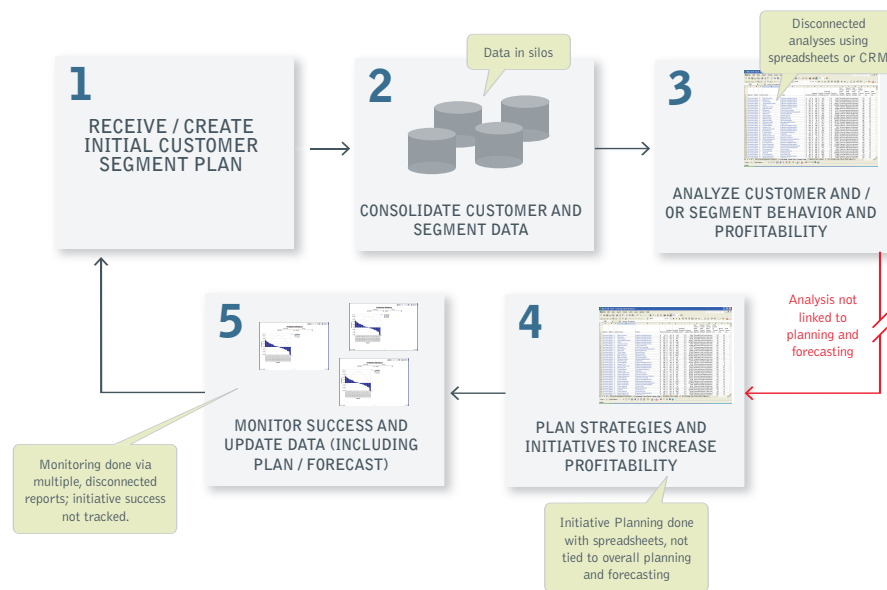
Introduction: driving success one customer at a time

Ask most financial services executives about their key strategies for growth, and the same answers tend to pop up: increase wallet share, improve customer satisfaction and loyalty, serve mass market customers more cost-effectively, and know the customer's needs so the institution can offer the right product at the right time.

All of these answers are predicated upon having customer segment or individual customer data available, using the data to understand the behaviors and profitability of customers or groups of customers, and then to create strategies and plans that maximize the institution's success.

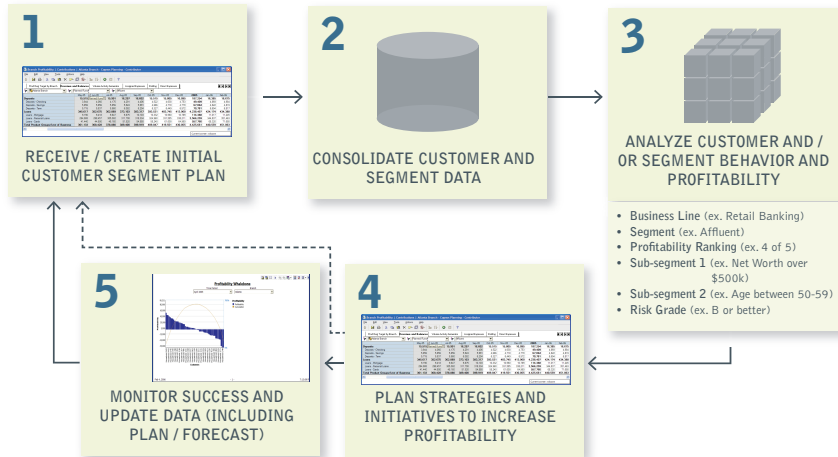
The tools to perform these tasks have existed for years, but in most cases, data resides in disparate systems, customer profitability solutions exist in relative isolation from the financial planning process, customer relationship management (CRM) solutions have been cost-prohibitive and rarely lived up to their promise, and initiative planning and tracking has been an afterthought. Consequently, many institutions have failed to meet their growth and profitability targets.

Customer Profitability Management at Most Banks



Despite the inefficient processes found at many banks, a coordinated, efficient approach to driving customer profitability can be a reality. The first step is to consolidate customer data, storing all relevant transactional, product, demographic, goal, and profile information in an accessible place. Next is applying appropriate reporting and analysis tools to the task of understanding as much as possible about customer segments and individual customers. Once those segments and customers are understood more completely, the bank can use technology integrated with analysis and reporting capabilities to plan initiatives and set very specific targets that improve segment profitability. Finally, the bank can monitor the success of its plans and initiatives and feed information gained back into the process, creating a closed-loop cycle for continual performance improvement.

Driving Customer Profitability (Retail)



The Cognos Solution: Customer Segment Blueprint

The *Cognos Retail Banking Customer Segment Performance Blueprint* enables retail banks to create customer segment profit-and-loss statements. The solution enables segment managers to report on and analyze profitability down to customer or household, to create regional and product P&Ls within a segment, and to plan sales and marketing initiatives to improve segment results. Integration with Acorn Systems' activity-based management software ensures granular, accurate profitability measurement and planning.

The *Retail Banking Customer Performance Blueprint* contains three primary components:

- Reporting, analysis, dashboards, and scorecards using Cognos 8 Business Intelligence
- Planning and forecasting, using Cognos 8 Planning
- Activity-based costing and management (pre-integrated with Acorn Systems' Profit Analyzer CI, but can be used with any ABC or other costing system or methodology)

Using these components, the *Blueprint* enables customer segment managers, marketing personnel, and other customer-facing bank employees to receive customer segment information, analyze information to determine targets, plan initiatives to drive increased profits in the chosen segment, and manage and update a customer-segment P&L. The descriptions below follow that basic workflow: report and analyze customers and customer segments, plan initiatives, and manage the customer segment P&L.

“The Cognos Banking Customer Segment Blueprint is an excellent solution for reporting on customer segments and customers, planning segment-level profitability, and planning initiatives to drive increased revenue and profitability into a customer segment.”

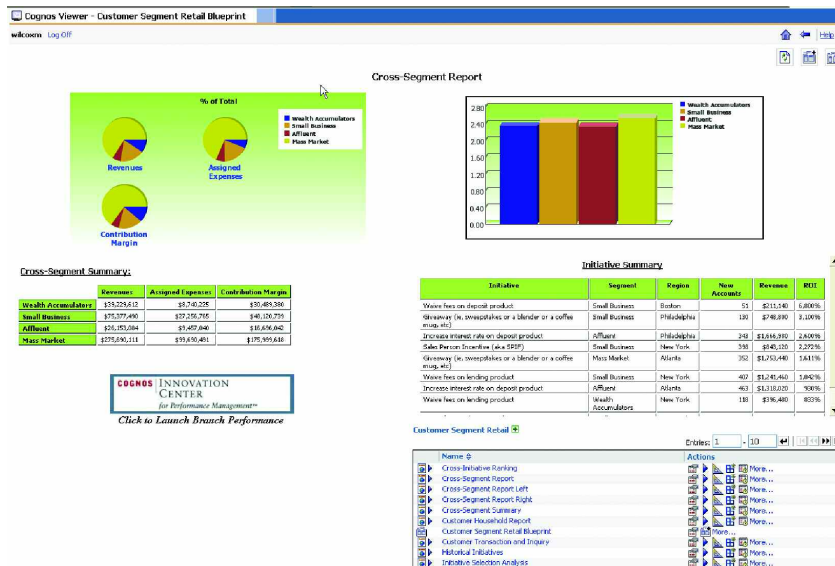
— VICE PRESIDENT, FINANCE, \$20 BILLION USD BANK

Customer Segment Reporting, Analysis, Dashboards, and Scorecards

The *Retail Banking Customer Performance Blueprint* provides a hierarchy of dashboards and reports designed to guide the user through deeper and deeper levels of customer- and customer segment detail.

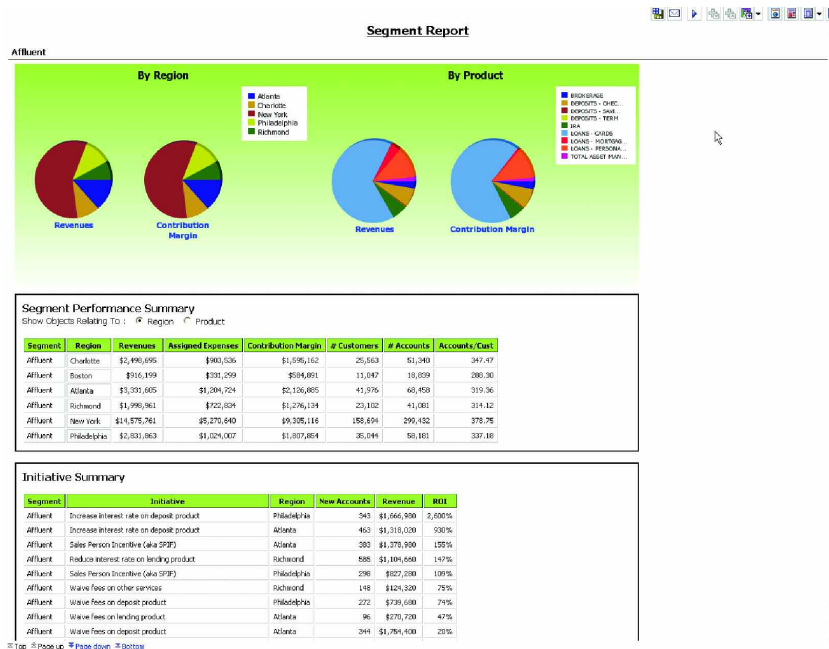
The first level provides a view of all customer segments (*Cross-segment Report*), which allows the user to understand at a glance how segments are performing across measures such as revenue, contribution margin, and accounts per customer. In addition, it highlights initiatives that are most successful at driving higher profitability.

Cross-segment Report



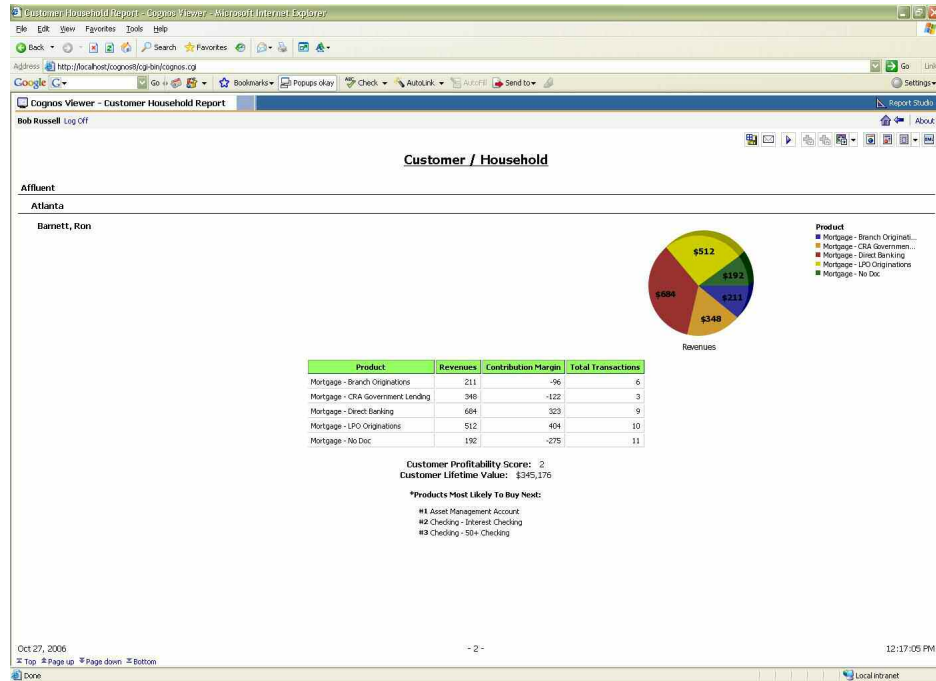
The next level in the hierarchy is the *Customer Segment Report*. This dashboard-style report allows the user to look within a segment to understand differences across regions and products—both comparatively and in absolute financial terms. It also incorporates an initiative summary, which reflects initiatives success within this particular segment.

Customer Segment Report



The lowest level of reporting is the *Customer or Household Report*, which displays both key financial information for the customer and profitability measures, such as customer profitability score, customer lifetime value, risk grade, and products most likely to be purchased next (these measures can be either supplied by an existing bank profitability system or created independently).

Customer or Household Report



There is also a link to the *Customer Transaction and Inquiry Report*, which provides detailed information about recent transactions and inquiries.

Transaction Report

Customer Transaction and Inquiry

Affluent
Adkins, Scott

Trans Date	Trans Type	Trans Channel
10/18/06	Online	Payment
10/06/06	Branch	Deposit
09/21/06	Call Center	Payment
09/13/06	Online	Payment
09/04/06	Online	Payment

Inquiry Date	Inquiry Type
10/22/06	Branch
10/08/06	Call Center
10/04/06	Branch

Initiative Reporting, Analysis, Dashboards, and Scorecards

From the customer analysis just performed—whether at cross-segment, segment, or customer level—the user is able to identify exactly which customer segment to target for product or service initiatives. To launch a new initiative, the user may look at how past initiatives have performed in order to determine what initiative to proceed with for the chosen target.

Similar to customer segment reporting, there is an initiative reporting hierarchy. The highest level is a cross-initiative report, showing key information regarding all initiatives across segments, regions, and products.

Cross-Initiative Summary Report

Cross-Initiative Ranking								
Initiative	Segment	Region	New Accounts	Revenue (\$)	Initiative Cost (\$)	# Teachers	Conversion Rate (%)	ROI (%)
Giveaway (in, sweepstakes or a blender or a coffee mug, etc)	Alliant	Atlanta	65	156,000	253,500	6,653	1	-38
Giveaway (in, sweepstakes or a blender or a coffee mug, etc)	Alliant	Philadelphia	227	617,200	409,700	2,990	3	-13
Giveaway (in, sweepstakes or a blender or a coffee mug, etc)	Alliant	Richmond	421	646,900	1,498,220	16,406	5	-8
Increase interest rate on deposit product	Alliant	Atlanta	463	1,318,000	356,640	12,637	8	930
Increase interest rate on deposit product	Alliant	Philadelphia	340	1,666,800	61,740	6,182	4	2,600
Increase interest rate on deposit product	Alliant	Richmond	438	821,890	1,428,760	6,889	12	-35
Reduce interest rate on lending product	Alliant	Atlanta	215	490,200	467,500	1,693	13	-19
Reduce interest rate on lending product	Alliant	Philadelphia	216	181,440	1,153,440	8,744	2	-24
Reduce interest rate on lending product	Alliant	Richmond	588	1,104,680	1,679,460	6,938	102	247
Sales Program Incentive (aka SPII)	Alliant	Atlanta	303	1,376,900	1,162,800	5,629	13	155
Sales Program Incentive (aka SPII)	Alliant	Philadelphia	290	827,200	1,389,240	4,208	13	109
Sales Program Incentive (aka SPII)	Alliant	Richmond	167	130,200	791,560	8,294	2	-83
Waive fees on deposit product	Alliant	Atlanta	344	1,754,400	1,485,440	2,917	12	20
Waive fees on deposit product	Alliant	Philadelphia	272	739,600	836,040	12,099	6	74
Waive fees on deposit product	Alliant	Richmond	223	254,200	1,257,720	6,696	3	-80
Waive fees on lending product	Alliant	Atlanta	96	270,720	184,320	7,359	1	47
Waive fees on lending product	Alliant	Philadelphia	204	361,600	1,186,600	10,713	6	-126
Waive fees on lending product	Alliant	Richmond	170	346,000	438,600	720	24	-21
Waive fees on other services	Alliant	Atlanta	461	1,007,100	1,504,200	3,521	151	41
Waive fees on other services	Alliant	Philadelphia	189	374,200	839,160	2,948	8	-38
Waive fees on other services	Alliant	Richmond	140	124,200	71,040	11,120	13	75
Giveaway (in, sweepstakes or a blender or a coffee mug, etc)	Mass Market	Atlanta	352	1,751,440	381,120	9,304	11	1,611
Giveaway (in, sweepstakes or a blender or a coffee mug, etc)	Mass Market	Philadelphia	329	1,064,990	1,466,760	5,371	6	-27
Giveaway (in, sweepstakes or a blender or a coffee mug, etc)	Mass Market	Richmond	167	671,380	260,620	7,286	2	158
Increase interest rate on deposit product	Mass Market	Atlanta	63	86,940	113,400	6,360	1	-23
Increase interest rate on deposit product	Mass Market	New York	279	1,506,600	1,305,720	2,034	14	15
Increase interest rate on deposit product	Mass Market	Philadelphia	117	133,380	687,960	762	15	-81
Increase interest rate on deposit product	Mass Market	Richmond	79	350,700	199,000	5,621	1	76
Reduce interest rate on lending product	Mass Market	Atlanta	475	2,121,480	2,365,020	10,047	14	-27
Reduce interest rate on lending product	Mass Market	New York	132	738,580	384,320	8,047	2	102
Reduce interest rate on lending product	Mass Market	Philadelphia	246	686,600	209,960	9,482	3	186
Reduce interest rate on lending product	Mass Market	Richmond	263	296,700	205,140	5,239	5	15
Sales Program Incentive (aka SPII)	Mass Market	Atlanta	176	850,500	798,000	2,513	7	7
Sales Program Incentive (aka SPII)	Mass Market	Philadelphia	38	109,440	208,200	158	24	-47
Sales Program Incentive (aka SPII)	Mass Market	Richmond	170	615,960	488,480	2,093	77	-22
Waive fees on deposit product	Mass Market	Atlanta	412	949,560	1,816,600	6,928	30	40

From the *Cross-Initiative Report*, the user can select a report for a single initiative, which provides an even greater level of detail on any past initiative.

Initiative Report

Historical Initiatives				
Initiative: Giveaway (in, sweepstakes or a blender or a coffee mug, etc)				
Segment:	Alliant			
Region:	Atlanta			
Marketing Media Types:	TV Advertising, Radio Advertising, Email			
Start Date:	July, 2004			
End Date:	December, 2004			
	Target	Actual	Variance	Status
# New Accounts	168	65	-103	
Initiative Revenue:	\$443,520	\$156,000	-287,520	
Initiative Cost:	\$619,880	\$263,500	-361,380	
# of Teachers	2,305	6,653	4,348	
Conversion Rate:	6%	1%	-5%	
Initiative ROI:	-26%	-30%	-12%	

The final initiative report is quite different from the others, in that it provides a guided path to choosing an effective initiative based on historical data (similar to a “wizard”). *Initiative Selection Analysis* prompts the user to select the customer segment for which an initiative is to be executed, then provides a list of the most profitable products within that segment. The user may select which product to offer the target segment. Based on the product selection, the report then provides a list of past initiatives—and the associated marketing media—that have proved most successful in promoting that product, allowing the user to choose the optimal product—initiative mix.

Initiative Selection Analysis

Segment / Product		Contribution Margin							
Mass Market		63%							
<input type="checkbox"/> Brokerage - Full-service Brokerage Account		67%							
Segment	Product	Region	Initiative Data	New Accounts	Revenue (\$)	Initiative Cost (\$)	# Touches	Conversion Rate (%)	ROI (%)
Mass Market	Brokerage - Full-service Brokerage Account	Richmond	Increase interest rate on deposit product	76	362,766	196,800	4,621	1	76
Mass Market	Brokerage - Full-service Brokerage Account	Atlanta	Reduce interest rate on lending product	143	420,000	643,600	1,404	10	-33
Mass Market	Brokerage - Full-service Brokerage Account	Richmond	Sales Person Incentive (aka SPIF)	54	261,980	226,320	1,336	3	28
Mass Market	Brokerage - Full-service Brokerage Account	Atlanta	Waive fees on deposit product	145	435,000	208,800	7,594	2	108
Mass Market	Brokerage - Full-service Brokerage Account	Philadelphia	Waive fees on lending product	34	106,080	136,720	8,018	0	-24
Mass Market	Brokerage - Full-service Brokerage Account	Philadelphia	Waive fees on other services	26	103,008	130,600	6,741	1	-21
<input type="checkbox"/> Brokerage - Online Brokerage Account		60%							
Segment	Product	Region	Initiative Data	New Accounts	Revenue (\$)	Initiative Cost (\$)	# Touches	Conversion Rate (%)	ROI (%)
Mass Market	Brokerage - Online Brokerage Account	Atlanta	Giveaway (e.g. sweepstakes or blender or a coffee mug, etc)	296	1,545,120	88,800	3,822	10	1,840
Mass Market	Brokerage - Online Brokerage Account	Philadelphia	Increase interest rate on deposit product	117	133,380	687,880	782	15	-61
Mass Market	Brokerage - Online Brokerage Account	Richmond	Reduce interest rate on lending product	383	236,700	206,140	5,239	5	15
Mass Market	Brokerage - Online Brokerage Account	Philadelphia	Sales Person Incentive (aka SPIF)	38	109,440	206,200	188	24	-47
Mass Market	Brokerage - Online Brokerage Account	Atlanta	Waive fees on lending product	175	84,000	346,600	8,624	2	-76
Mass Market	Brokerage - Online Brokerage Account	Richmond	Waive fees on other services	243	831,860	803,860	2,680	3	-8
<input type="checkbox"/> Mortgage - All A Subprime		48%							
<input type="checkbox"/> Personal Loans - Auto Loan		67%							
<input type="checkbox"/> Personal Loans - Unsecured Loan		67%							

Initiative Planning

Having chosen the optimal initiative, the user can now forecast the impact of that initiative on the customer segment's profitability. In the **Initiative Planning** tab shown below, the user chooses the product and marketing mix, as well as start- and end-dates and the target number of accounts (by credit grade) for the initiative. The *Blueprint* provides the initiative's projected net profit, including lifetime revenue, lifetime assigned expenses, and acquisition cost (initiative cost). In addition, a user can compare multiple initiatives side-by-side before making a final choice. Once the choice is made, the user selects the appropriate initiative, which feeds the initiative forecast into the overall profit and loss forecast for the customer segment.

Initiative Planning Tab

	Scenario 1	Scenario 2	Scenario 3	Scenario Used
INITIATIVE COST				
Initiative Type	Giveaway (e.g. sweepstakes, pen, coffee mug)	Sales Person Incentive (SPIF)		
Marketing Media				
TV Advertising	0	0	0	0
Radio Advertising	0	0	0	0
Direct Mail	0	30,000	0	20,000
Print Advertising	50,000	35,000	0	35,000
Local Advertising	0	0	0	0
Other	0	0	0	0
Total Targeted Initiative Acquisition Costs	50,000	65,000	0	55,000
Targeted Acquisition Cost/Account	59	54	0	54
Initiative Start Month	Mar 07	Mar 07		Mar 07
Initiative End Month	Apr 07	Apr 07		Apr 07
Region	Total Regions	Northwest		Northwest
Target # of Accounts (Credit = A)	150	200	0	200
Target # of Accounts (Credit = B)	250	300	0	300
Target # of Accounts (Credit = C)	350	350	0	350
Target # of Accounts (Credit = D)	100	125	0	125
Per Account Profitability				
Revenue per account per month (Credit = A)	20	30	30	20
Revenue per account per month (Credit = B)	25	25	25	25
Revenue per account per month (Credit = C)	30	30	30	30
Revenue per account per month (Credit = D)	25	25	25	25
Life of Account (Credit = A)	66	49	49	48
Life of Account (Credit = B)	65	65	65	65
Life of Account (Credit = C)	60	60	60	60
Life of Account (Credit = D)	22	72	72	72
Lifetime Revenue (Credit = A)	144,000	192,000	0	192,000
Lifetime Revenue (Credit = B)	343,750	487,500	0	487,500
Lifetime Revenue (Credit = C)	630,000	630,000	0	630,000
Lifetime Revenue (Credit = D)	252,000	315,000	0	315,000
ASSIGNED EXPENSES				
Assigned Expense (Credit = A)	12	12	12	12
Assigned Expense (Credit = B)	17	17	17	17
Assigned Expense (Credit = C)	22	22	22	22
Assigned Expense (Credit = D)	27	27	27	27
Lifetime Assigned Expenses	976,500	1,147,450	0	1,147,450
NET PROFIT				
Total Lifetime Revenue	1,363,750	1,618,250	0	1,618,250
Total Lifetime Assigned Expenses	976,500	1,147,450	0	1,147,450
Total Initiative Cost	50,000	65,000	0	55,000
Initiative Net Profit	343,250	415,800	0	415,800
Initiative ROI	6.86%	7.96%	0.00%	7.96%
Choose Scenario	<input type="radio"/> Scenario 1 <input type="radio"/> Scenario 2 <input checked="" type="radio"/> Scenario 3 <input type="radio"/> Scenario Used			
Risks (Business Rules)				
Notes				
Target # of Accounts / Week (Credit = A)	7,695	25,800	0,000	25,000
Target # of Accounts / Week (Credit = B)	13,158	43,750	0,000	43,750
Target # of Accounts / Week (Credit = C)	18,421	43,750	0,000	43,750
Target # of Accounts / Week (Credit = D)	5,263	15,625	0,000	15,625

The calculations derived here are driven from an **Initiative Assumptions** tab (not shown), as well as the **Revenue & Balances** and **Assigned Expenses** tabs which are described in greater detail below.

Calculating and Forecasting the Customer Segment P&L

The **Customer Segment Profit & Loss Statement**—which calculates the customer segment profitability to which each segment is ultimately managed—is created dynamically from revenue, balance, and cost information calculated in other areas of the model.

The **Revenue & Balances** tab supplies the revenue portion of the Profit and Loss statement, by allowing the customer segment owner or marketing to manage branch Balances, Accounts, and Net New Customers within the segment. The segment manager can forecast number of accounts and account balance items such as Planned Runoff, New Business, and Attrition. A forecast is run for each Product Group, Region, and Credit Grade within the customer segment. To facilitate data entry, the tab may be reoriented as needed. For example, it may be reoriented to work on the Planned Runoff for all product groups in the “Wealth Accumulators” customer segment. Fields in **GRAY** are non-editable and consist of historical data (which is locked), data linked over from other tabs, or items calculated based upon information entered in the white (editable) areas. As changes are made, they are highlighted in **BLUE** along with any cells affected by the change. Balance changes will affect Revenue numbers and flow through the model to subsequent tabs, including the **Profit & Loss Statement**. Likewise, changes in the Accounts area will affect income (revenue from new accounts) and drive account-related activity volumes. Account-related activity volumes will affect **Assigned Expenses**, which are discussed below.

Revenue and Balances Tab

Profit & Loss Targets		Profit & Loss		Initiatives		Initiative Calc		Revenue & Balances		Volume Activity Calc		Initiative Volume Activity Calc		Assigned Expenses		Initiative Assumptions	
Wealth Accumulators		Asset Management Accounts		Northest		All Grades											
	2006	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07				
EXISTING REVENUE AND ACCOUNTS																	
Balances	17,996,652	18,943,126	19,028,387	19,093,630	19,191,580	19,298,224	19,378,577	19,467,526	19,545,942	19,624,896	19,703,556	19,778,491	19,858,214				
Opening Balances	17,996,652	18,943,126	19,028,387	19,093,630	19,191,580	19,298,224	19,378,577	19,467,526	19,545,942	19,624,896	19,703,556	19,778,491	19,858,214				
Planned Runoff	1,263,295	86,868	100,547	88,946	84,944	101,320	89,920	85,568	102,582	100,836	101,833	102,514					
New Business	4,864,553	390,555	394,464	417,753	423,959	403,820	427,702	403,377	400,783	404,526	404,522	408,941					
(Initiatives) Balances	2,709,189	223,237	228,875	220,856	220,371	221,347	238,893	229,393	227,227	225,130	228,953	222,654					
Ending	18,943,126	19,028,387	19,093,630	19,191,580	19,298,224	19,378,577	19,467,526	19,545,942	19,624,896	19,703,556	19,778,491	19,858,214	19,938,764	19,998,214			
Average	18,463,745	19,080,757	19,067,009	19,142,805	19,244,962	19,338,401	19,422,052	19,506,234	19,589,419	19,674,228	19,741,604	19,816,127	19,891,127	19,966,127			
% Balance Growth	0.43%	0.42%	0.34%	0.51%	0.56%	0.42%	0.46%	0.46%	0.40%	0.40%	0.40%	0.38%	0.38%				
(DU) P&L IS - Balances(Hide)	3,912,479	319,294	329,222	319,003	315,315	322,667	338,753	324,960	329,029	325,956	329,987	325,568					
Price Balance(Hide)	17,996,652	0	0	0	0	0	0	0	0	0	0	0	0				
Accounts																	
Opening Accounts	555	572	573	574	576	578	578	580	582	583	584	586					
New Accounts	84	7	7	7	7	7	7	7	7	7	7	7					
(Initiatives) Accounts	67	6	6	6	6	6	6	6	6	6	6	6					
Closing Accounts	572	573	574	575	578	579	580	582	583	584	586	587					
Average # of Accounts(Hide)	563	574	574	575	577	578	580	581	582	584	585	586					
% Account Growth	0.25%	0.21%	0.22%	0.28%	0.26%	0.24%	0.26%	0.24%	0.19%	0.20%	0.20%	0.22%					
Price Account(Hide)	555	0	0	0	0	0	0	0	0	0	0	0					
Planned Margin %	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%					
Net Interest Margin	0	0	0	0	0	0	0	0	0	0	0	0					
\$ Fees per New Account	224.00	224.00	224.00	224.00	224.00	224.00	224.00	224.00	224.00	224.00	224.00	224.00					
Average \$ Fees per Account	1,016,319	1,016,319	1,016,319	1,016,319	1,016,319	1,016,319	1,016,319	1,016,319	1,016,319	1,016,319	1,016,319	1,016,319					
Average \$ of Balance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%					
Fee Waives as % of Fees	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%					
Fees	588,288	49,795	49,841	50,085	50,288	50,286	50,443	50,482	50,573	50,663	50,856	50,986					
Loan Loss Ratio as % of Balance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%					
Loan Losses	0	0	0	0	0	0	0	0	0	0	0	0					
Existing Revenue	588,288	49,795	49,841	50,085	50,288	50,286	50,443	50,482	50,573	50,663	50,856	50,986					
Less Total Revenue(Hide)	538,588	49,789	49,795	49,841	50,085	50,286	50,286	50,443	50,482	50,573	50,663	50,856					
% Revenue Growth	0.24%	0.17%	0.03%	0.45%	0.27%	0.17%	0.31%	0.06%	0.10%	0.10%	0.30%	0.26%					
NEW INITIATIVE REVENUE AND ACCOUNTS																	
Initiative Revenue	0	0	0	0	0	0	0	0	0	0	0	0					
Initiative Acquisition Costs	0	0	0	0	0	0	0	0	0	0	0	0					
New Initiative Accounts	0	0	0	0	0	0	0	0	0	0	0	0					
TOTAL REVENUE AND ACCOUNTS	0	0	0	0	0	0	0	0	0	0	0	0					
TOTAL REVENUE	0	0	0	0	0	0	0	0	0	0	0	0					
TOTAL AVERAGE ACCOUNTS	0	0	0	0	0	0	0	0	0	0	0	0					

NEW INITIATIVE REVENUE AND ACCOUNTS									
Initiative Revenue	0	0	0	0	0	0	0	0	0
Initiative Acquisition Costs	0	0	0	0	0	0	0	0	0
New Initiative Accounts	0	0	0	0	0	0	0	0	0
TOTAL REVENUE AND ACCOUNTS									
TOTAL REVENUE	273,851	299,971	327,727	356,350	385,561	425,179	455,983	487,163	518,163
TOTAL AVERAGE ACCOUNTS	1,675	1,879	2,083	2,287	2,491	2,695	2,899	3,103	3,307

The Assigned Expenses tab—for expenses driven by account activity—provides the cost portion of the Customer Segment Profit & Loss Statement based on activity-based costs fed from Acorn System’s Profit Analyzer CI. Assigned Expenses are derived as follows:

- Each product has an associated set of activities. For instance, Personal Loans have Customer Inquiry Calls as one of several associated activities. [Note that each activity—such as Customer Inquiry Calls—comprises numerous transactions, in this case, balance inquiries, fee inquiries, and so on.]
- Each activity is performed a certain number of times per month. The volume of monthly activity is calculated in the model’s Volume Activity Generator (not shown).
- Each activity has an associated cost, called the Planned Unit Price (provided by the Acorn ABC engine, based on recent historical costs).
- The Assigned Expense for each product within a customer segment is calculated by multiplying each activity Volume by its associated Planned Unit Price to arrive at a monthly Cost for that activity, then summing the costs of each activity associated with that product.

As can be seen in the graphic below, the Assigned Expenses tab summarizes the information into the Volumes, Unit Price, and Cost of each Activity for each product type within the customer segment.

Assigned Expenses Tab

		Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	2006	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07
Call Center	Volume	41	41	41	41	41	41	41	41	41	41	491	42	42	51	50	59	76	88	97
	Planned Unit Price	0.75	0.76	0.75	0.79	0.79	0.78	0.78	0.75	0.75	0.75	0.79	0.78	0.76	0.79	0.73	0.79	0.79	0.75	0.75
	Cost	31	31	31	32	32	32	32	31	31	31	388	33	33	40	39	47	54	62	69
Customer Inquiry Calls	Volume	57	57	57	57	57	58	58	58	58	58	689	58	58	71	94	96	109	122	134
	Planned Unit Price	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.72	1.74	1.73	1.73	1.74	1.74	1.74	1.74	1.74	1.74	1.73	1.74
	Cost	99	99	99	99	100	100	100	100	101	101	1,195	101	101	123	145	167	189	211	233
Telephone Banking Support	Volume	299	368	361	362	363	364	365	366	367	4,348	368	369	441	512	583	655	726	797	
	Planned Unit Price	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44
	Cost	510	519	520	521	522	523	524	526	528	529	6,261	530	532	634	737	840	943	1,045	1,147
Loan Origination Call Cn	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Planned Unit Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Cost	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposit Origination	Volume	77	77	77	78	78	78	78	78	78	78	928	78	78	96	113	128	146	163	180
	Planned Unit Price	5.72	5.72	5.72	5.73	5.73	5.73	5.73	5.73	5.73	5.72	5.73	5.72	5.73	5.72	5.73	5.73	5.73	5.72	5.73
	Cost	440	441	442	443	444	445	446	447	448	448	5,320	451	452	548	644	740	837	933	1,029
Operations	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Planned Unit Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Cost	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accept Deposit ATM	Volume	107	107	108	108	109	109	109	109	109	131	2,200	191	192	226	270	321	364	407	450
	Planned Unit Price	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
	Cost	71	71	71	71	72	72	72	72	72	72	865	126	127	150	183	212	240	269	297
Mailing/Pollage Cost	Volume	37	37	38	38	38	38	38	38	38	38	452	38	38	47	55	63	72	80	88
	Planned Unit Price	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
	Cost	5	5	5	5	5	5	5	5	5	5	59	5	5	6	7	8	9	10	11
Process Bill Payments	Volume	27	27	27	27	27	27	27	27	27	27	323	27	27	30	30	35	36	36	36
	Planned Unit Price	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
	Cost	1	1	1	1	1	1	1	1	1	1	6	1	1	1	1	1	1	1	1
Process Deposits	Volume	41	41	41	41	41	41	41	41	41	42	452	42	42	52	62	71	81	91	101
	Planned Unit Price	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
	Cost	0	0	0	0	0	0	0	0	0	0	6	0	0	1	1	1	1	1	1
Produce Statements	Volume	34	34	35	35	35	35	35	35	35	35	416	35	35	44	53	61	70	79	87
	Planned Unit Price	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44
	Cost	49	49	50	50	50	50	50	50	50	50	597	51	51	63	75	88	100	113	125
Mortgage Sales	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Planned Unit Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Cost	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan Sales	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Planned Unit Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Cost	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan Renewals	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Planned Unit Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Cost	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lending Back Office	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Planned Unit Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Cost	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

The Profit & Loss Statement tab is the recipient of the revenue, assigned expenses, and new initiative revenue planning that have been described. This tab combines revenue information with assigned expenses to forecast the contribution margin for the customer segment. In addition, it allows for overhead items, such as finance, executive, and HR, before arriving at Net Income Before Taxes and ultimately Net Income for the customer segment. Note that new initiative revenue is included on the Profit and Loss Statement, but has its own revenue and cost lines. This separation allows new initiative information to be differentiated easily, and also allows for seasoning of new accounts if the bank so desires. Finally, the Profit and Loss Statement also includes a number of Key Performance Indicators (KPIs), allowing the customer segment manager to track important pieces of information. There is also a tab (not shown) in the model in which the KPI targets are set and tracked.

Profit & Loss Statement Tab

	Nov-06	Dec-06	2006	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	2007
Net Income Margin	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fees	49,586	49,709	988,282	49,795	49,841	50,065	50,200	50,286	50,443	50,482	50,573	50,853	50,856	50,988	51,055	605,244
Initiative Revenue	0	0	0	0	0	3,453	6,506	10,259	13,813	17,246	20,719	24,172	27,625	29,625	27,625	179,563
Revenue	49,586	49,709	988,282	49,795	49,841	53,518	57,106	60,545	64,256	67,747	71,292	74,924	78,481	78,613	78,680	784,806
Loan Losses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Initiative Acquisition Costs	0	0	0	0	0	6,876	6,876	6,876	6,876	6,876	6,876	6,876	6,876	6,876	6,876	55,000
Assigned Expenses																
Call Center	1,109	1,112	13,161	1,115	1,117	1,346	1,574	1,892	2,030	2,258	2,495	2,712	2,940	2,943	2,946	25,269
Operations	182	182	2,150	183	183	225	267	309	350	394	436	478	500	520	521	4,387
Message Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lending Back Office	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Code	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Assigned Expenses	1,291	1,294	15,320	1,298	1,301	1,571	1,841	2,111	2,382	2,652	2,921	3,190	3,460	3,463	3,467	29,656
Revenue Less Assigned Expenses	48,295	48,414	972,962	48,497	48,541	51,947	55,265	58,534	61,874	65,086	68,371	71,645	75,021	75,148	75,213	755,150
Total Controllable Expenses	1,291	1,294	15,320	1,298	1,301	1,446	1,716	1,986	2,257	2,527	2,796	3,065	3,335	3,338	3,342	34,002
Contribution Margin	48,295	48,414	972,962	48,497	48,541	51,501	53,549	56,548	59,617	62,560	65,544	68,579	71,606	71,710	71,771	721,148
Overhead																
Finance	3,852	3,748	47,858	3,719	4,066	3,509	3,753	3,864	4,005	3,853	3,860	3,834	3,845	3,814	3,883	46,874
Executive	3,205	3,261	39,975	3,287	3,163	3,206	3,251	3,332	3,333	3,291	3,142	3,228	3,198	3,251	3,247	38,791
Human Resources	2,231	2,088	25,855	2,263	2,146	2,171	2,121	2,180	2,172	2,170	2,115	2,234	2,221	2,138	2,194	26,114
Net Income	38,927	39,388	460,979	39,238	39,145	32,332	32,318	32,123	31,676	31,581	31,553	31,182	31,253	30,222	30,265	488,089
Number of FTE's	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Key Performance Indicators:																
% Balance Growth	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
% Revenue Growth	1.03%	0.96%	0.96%	0.97%	0.41%	1.69%	0.69%	1.10%	0.82%	0.73%	0.74%	1.03%	1.21%	0.87%	0.93%	0.93%
% of Income from Fees	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Profitability Movement Indicator	0.23%	0.25%	0.24%	0.17%	0.09%	7.30%	6.39%	5.53%	5.71%	5.21%	5.83%	4.70%	4.71%	0.17%	0.09%	3.68%
Efficiency Ratio (Costs / Revenue)	17.00%	16.70%	17.23%	16.68%	17.15%	31.11%	31.44%	31.86%	32.97%	33.21%	33.58%	34.27%	34.24%	34.68%	34.61%	28.45%
% Controllable Expense Growth	0.31%	0.28%	0.24%	0.25%	0.22%	549.39%	3.20%	3.10%	3.01%	2.92%	2.83%	2.75%	2.68%	(86.49%)	0.10%	2.63%
Revenue per Employee	260,868	265,208	262,162	270,360	280,330	264,054	273,444	263,973	265,508	285,046	263,913	268,123	267,761	260,632	262,853	268,112
Net Income per Employee	621,269	629,625	7,416,889	629,701	606,683	512,853	522,259	581,271	581,998	477,237	500,856	494,366	495,445	593,085	604,772	6,451,517

Revenue per Employee	62,766	66,811	71,121	75,558	80,074	84,982	89,623	94,302	99,016	10
Net Income per Employee	31,719	37,536	40,814	46,410	47,749	61,395	58,007	63,540	69,651	2
Lag Total Controllable Expenses(Hide)	0	772,198	715,047	739,983	708,296	826,304	568,646	780,545	745,106	69
Opening Balances (Hide)	0	0	0	0	0	0	0	0	0	0
Lag Total Revenue(Hide)	0	1,847,436	1,964,284	2,089,831	2,219,517	2,351,703	2,495,600	2,631,671	2,768,930	2,90
Lag Revenue Less Assigned Expenses (Hide)	0	1,075,238	1,249,237	1,349,848	1,511,221	1,525,399	1,926,954	1,851,127	2,023,824	2,20

Activity-based Costing and Management

Customer segment profitability planning is only as effective as the data upon which the planning is based. To ensure the most accurate data, Cognos has integrated Acorn Systems' Profit Analyzer CI, which provides activity-based costing and management information. However, this solution can be used with any costing provider (activity-based or other methodologies) or the bank's existing systems.

For more information about how the Cognos Retail Banking Customer Segment Performance Blueprint can help your bank improve its customer segment performance, please visit the Cognos Innovation Center at: www.cognos.com/innovationcenter/blueprint_industry.html

About the Cognos Innovation Center for Performance Management

The Cognos Innovation Center was established in North America and Europe to advance the understanding of proven planning and performance management techniques, technologies, and practices. The Innovation Center is dedicated to transforming routine performance management practices into “next practices” that help cut costs, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

Staffed globally by experts in planning, technology, and performance and strategy management, the Innovation Center partners with more than 600 Cognos customers, academics, industry leaders, and others seeking to accelerate adoption, reduce risk, and maximize the impact of technology-enabled performance management practices.



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