RETAIL BANKING:
Customer Segment Performance Blueprint

A WEB-BASED PERFORMANCE MANAGEMENT APPLICATION

COGNOS | INNOVATION CENTER
for Performance Management™

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.
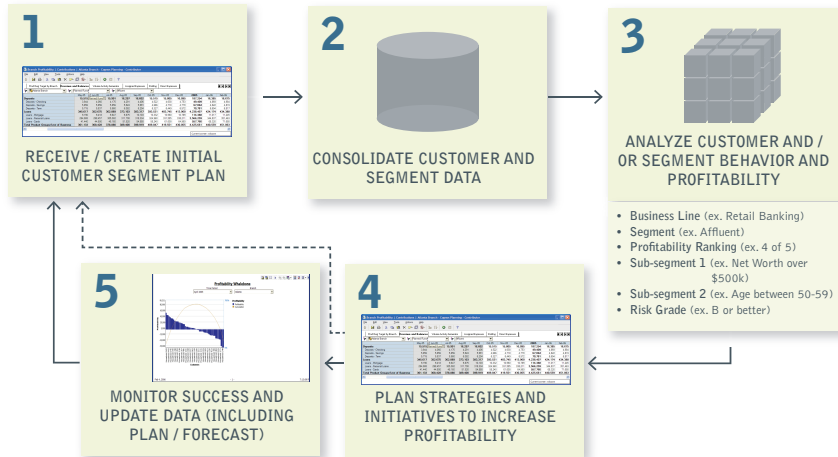
The tools to perform these tasks have existed for years, but in most cases, data resides in disparate systems, customer profitability solutions exist in relative isolation from the financial planning process, customer relationship management (CRM) solutions have been cost-prohibitive and rarely lived 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
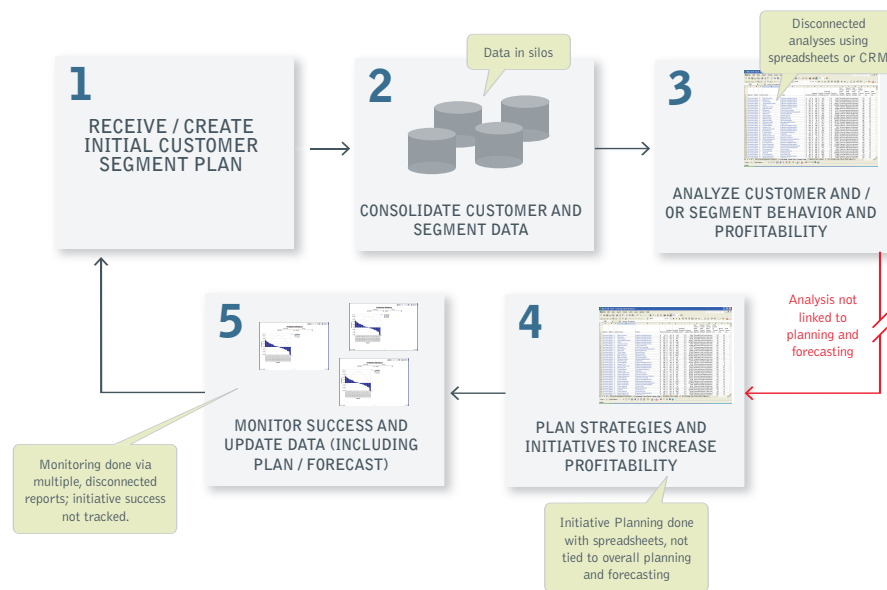
Despite the inefficient processes found at many banks, a coordinated, efficient approach to driving customer profitability can be a reality. The first step is to consolidate customer data, storing all relevant transactional, product, demographic, goal, and profile information in an accessible place. 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)

1 RECEIVE / CREATE INITIAL CUSTOMER SEGMENT PLAN

2 CONSOLIDATE CUSTOMER AND SEGMENT DATA

3 ANALYZE CUSTOMER AND / OR SEGMENT BEHAVIOR AND PROFITABILITY
- **Business Line** (ex. Retail Banking)
- **Segment** (ex. Affluent)
- **Profitability Ranking** (ex. 4 of 5)
- **Sub-segment 1** (ex. Net Worth over $500k)
- **Sub-segment 2** (ex. Age between 50-59)
- **Risk Grade** (ex. B or better)

5 MONITOR SUCCESS AND UPDATE DATA (INCLUDING PLAN / FORECAST)

4 PLAN STRATEGIES AND INITIATIVES TO INCREASE PROFITABILITY

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 prof-

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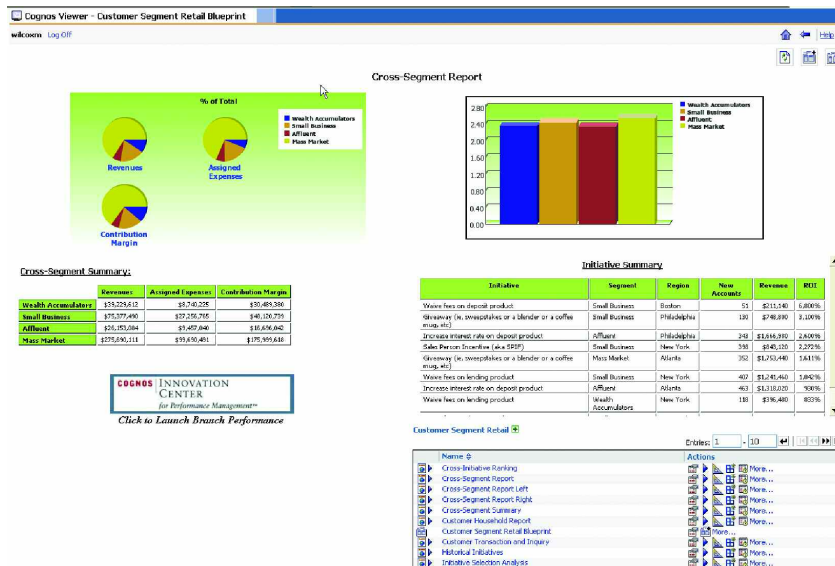
The next level in the hierarchy is the *Customer Segment Report*. This dashboard-style report allows the user to look within a segment to understand differences across regions and products—both comparatively and in absolute financial terms. It also incorporates an initiative summary, which reflects initiatives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

Customer Segment Report

Segment Report

Affluent

By Region

By Product

Atlanta
Charlotte
New York
Philadelphia
Richmond

BROKERAGE
DEPOSITS - CHEC...
DEPOSITS - Savi...
DEPOSITS - TERM
IRA
LOANS - CARDS
LOANS - MORTGAG...
LOANS - PERSONA...
TOTAL ASSET MAN...

Revenues   Contribution Margin   Revenues   Contribution Margin

Segment Performance Summary
Show Objects Relating To :   ● Region   ○ Product

Segment	Region	Revenues	Assigned Expenses	Contribution Margin	# Customers	# Accounts	Accounts/Cust
Affluent	Charlotte	$2,498,695	$980,536	$1,595,162	25,563	51,340	347.47
Affluent	Boston	$916,199	$331,299	$584,891	11,047	19,859	288.30
Affluent	Atlanta	$3,331,605	$1,204,724	$2,126,885	41,976	68,458	319.36
Affluent	Richmond	$1,998,961	$722,834	$1,276,134	23,102	41,081	314.12
Affluent	New York	$14,575,761	$5,270,640	$9,305,116	158,694	299,432	378.75
Affluent	Philadelphia	$2,831,863	$1,024,007	$1,807,854	35,044	58,181	337.18

Initiative Summary

Segment	Initiative	Region	New Accounts	Revenue	ROI
Affluent	Increase interest rate on deposit product	Philadelphia	343	$1,666,900	2,600%
Affluent	Increase interest rate on deposit product	Atlanta	463	$1,318,020	930%
Affluent	Sales Person Incentive (aka SPIF)	Atlanta	380	$1,378,900	155%
Affluent	Reduce interest rate on lending product	Richmond	585	$1,104,660	147%
Affluent	Sales Person Incentive (aka SPIF)	Philadelphia	298	$827,280	109%
Affluent	Waive fees on other services	Richmond	148	$124,320	75%
Affluent	Waive fees on deposit product	Philadelphia	272	$739,680	74%
Affluent	Waive fees on lending product	Atlanta	96	$270,720	47%
Affluent	Waive fees on deposit product	Atlanta	344	$1,754,400	20%

Top   Page up   Page down   Bottom

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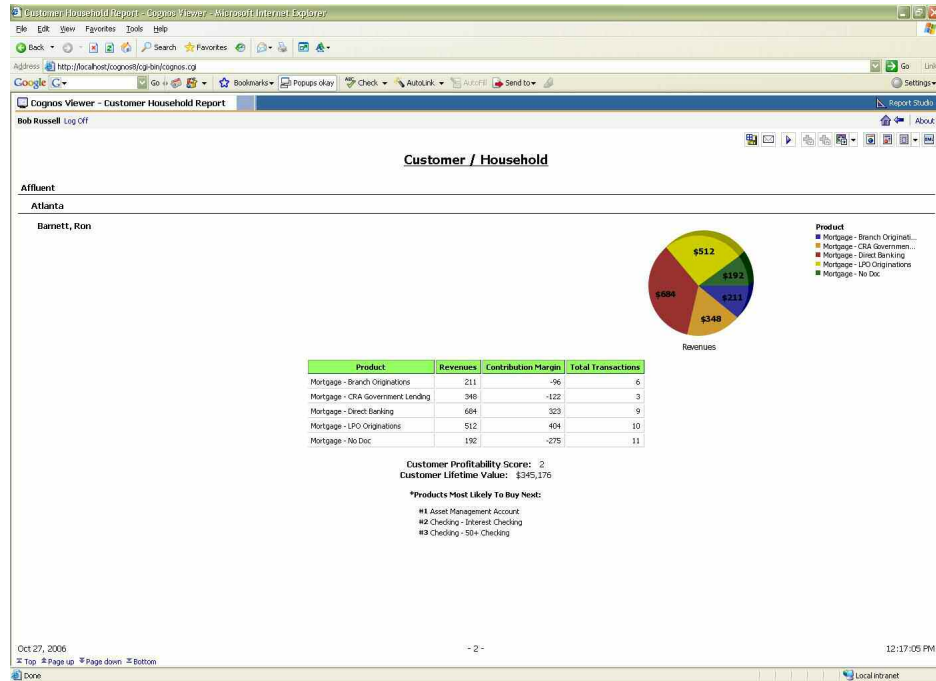
There is also a link to the *Customer Transaction and Inquiry Report*, which provides detailed information about recent transactions and inquiries.

Transaction Report

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

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

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

Initiative Selection Analysis

Segment / Product						Contribution Margin			
⊟ Mass Market						63%			
⊟ Brokerage - Full-service Brokerage Account						67%			

Segment	Product	Region	InitiativeData	New Accounts	Revenue ($)	Initiative Cost ($)	# Touches	Conversion Rate (%)	ROI (%)
Mass Market	Brokerage - Full-service Brokerage Account	Richmond	Increase interest rate on deposit product	79	360,780	196,080	6,621	1	76
Mass Market	Brokerage - Full-service Brokerage Account	Atlanta	Reduce interest rate on lending product	143	429,000	663,600	1,404	10	-33
Mass Market	Brokerage - Full-service Brokerage Account	Richmond	Sales Person Incentive (aka SPIF)	54	281,880	220,320	1,936	3	28
Mass Market	Brokerage - Full-service Brokerage Account	Atlanta	Waive fees on deposit product	145	435,000	208,800	7,994	2	108
Mass Market	Brokerage - Full-service Brokerage Account	Philadelphia	Waive fees on lending product	34	106,080	138,720	8,018	0	-24
Mass Market	Brokerage - Full-service Brokerage Account	Philadelphia	Waive fees on other services	76	103,500	130,600	6,741	1	-21

| ⊟ Brokerage - Online Brokerage Account | | | | | | 68% | | | |

Segment	Product	Region	Initiative Data	New Accounts	Revenue ($)	Initiative Cost ($)	# Touches	Conversion Rate (%)	ROI (%)
Mass Market	Brokerage - Online Brokerage Account	Atlanta	Giveaway (ie, sweepstakes or a blender or a coffee mug, etc)	296	1,645,120	88,800	2,822	10	1,840
Mass Market	Brokerage - Online Brokerage Account	Philadelphia	Increase interest rate on deposit product	117	133,380	667,980	762	16	-81
Mass Market	Brokerage - Online Brokerage Account	Richmond	Reduce interest rate on lending product	263	236,700	205,140	5,236	6	15
Mass Market	Brokerage - Online Brokerage Account	Philadelphia	Sales Person Incentive (aka SPIF)	38	109,440	205,200	168	24	-47
Mass Market	Brokerage - Online Brokerage Account	Atlanta	Waive fees on lending product	175	84,000	346,500	8,524	2	-76
Mass Market	Brokerage - Online Brokerage Account	Richmond	Waive fees on other services	243	831,060	903,960	7,680	3	-8

⊞ Mortgage - Alt A Subprime						49%			
⊞ Personal Loans - Auto Loan						67%			
⊞ 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 (ie,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	20,000	0	20,000
Print Advertising	50,000	35,000	0	35,000
local advertising	0	0	0	0
e-mail	0	0	0	0
Total Targeted Initiative Acquisition Costs	50,000	55,000	0	55,000
Targeted Acquisition Cost/Account	59	54	0	54
Initiative Start Month	Mar-07	Mar-07		Mar-07
Initiative End Month	Sep-08	Oct-07		Oct-07
Region	Total Regions	Northeast		Northeast
Target # of Accounts (Credit = A)	150	200	0	200
Target # of Accounts (Credit = B)	250	350	0	350
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	20	20	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)	35	35	35	35
Life of Account (Credit = A)	48	48	48	48
Life of Account (Credit = B)	55	55	55	55
Life of Account (Credit = C)	60	60	60	60
Life of Account (Credit = D)	72	72	72	72
Lifetime Revenue (credit = A)	144,000	192,000	0	192,000
Lifetime Revenue (credit = B)	343,750	481,250	0	481,250
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	976,550	1,147,450	0	1,147,450
NET PROFIT				
Total Lifetime Revenue	1,369,750	1,618,250	0	1,618,250
Total Lifetime Assigned Expenses	976,550	1,147,450	0	1,147,450
Total Initiative Cost	50,000	55,000	0	55,000
Initiative Net Profit	343,200	415,800	0	415,800
Initiative ROI	6.86%	7.56%	0.00%	7.56%
Choose Scenario	2nd Scenario			
Risks				
Warnings (Business Rules)				
Notes				
Target # of Accounts / Week (Credit = A)	7.895	25.000	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

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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

NEW INITIATIVE REVENUE AND ACCOUNTS								
Initiative Revenue	0	0	0	0	0	0	0	0
Initiative Acquisition Costs	0	0	0	0	0	0	0	0
New Initiative Accounts	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
TOTAL AVERAGE ACCOUNTS	1,675	1,879	2,083	2,287	2,491	2,695	2,899	3,103

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

The **Profit & Loss Statement t**ab 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

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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