

Corporate Banking Customer Segment Performance Blueprint



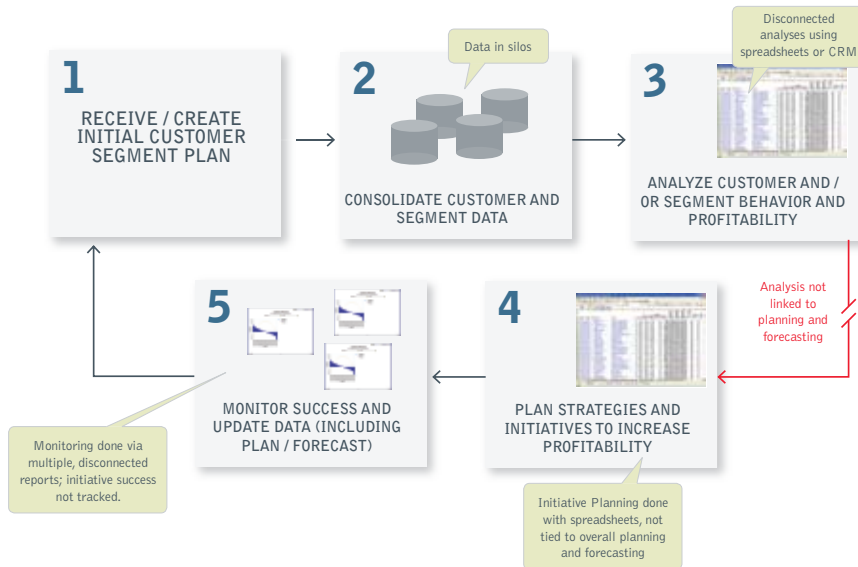
Introduction: Driving success one customer at a time

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 small and medium enterprises more cost-effectively, and know the customer’s needs so that 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.

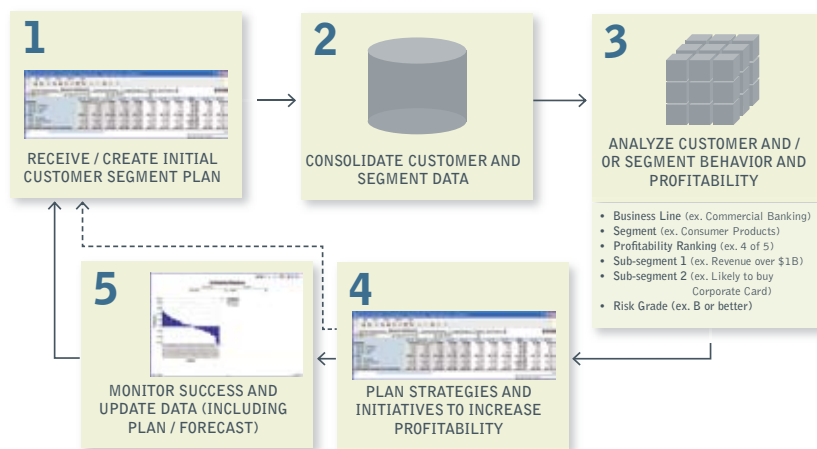
The tools to perform these tasks have existed for years, but in most cases, data resides in disparate systems, customer profitability solutions exist in relative isolation from the financial planning process, customer relationship management (CRM) solutions have been cost-prohibitive and rarely lived 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 (Corporate)



The IBM Cognos Solution: Customer Segment Performance Blueprint

The *IBM Cognos Corporate Banking Customer Segment Performance Blueprint* enables commercial, corporate, and investment banks to create profit-and-loss statements at the customer segment level or—for large corporate clients—at the customer level. The solution allows segment- or customer managers to report on and analyze profitability down to the customer level, to create regional and product P&Ls within a segment or customer, and to plan sales and marketing initiatives to improve segment or customer results. Integration with Acorn Systems' activity-based management software ensures granular, accurate profitability measurement and planning.

The *Blueprint* comprises three primary components:

- Reporting, analysis, dashboards, and scorecards using IBM Cognos® 8 Business Intelligence.
- Planning and forecasting, using IBM 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 (and large corporate account 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 IBM 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.”

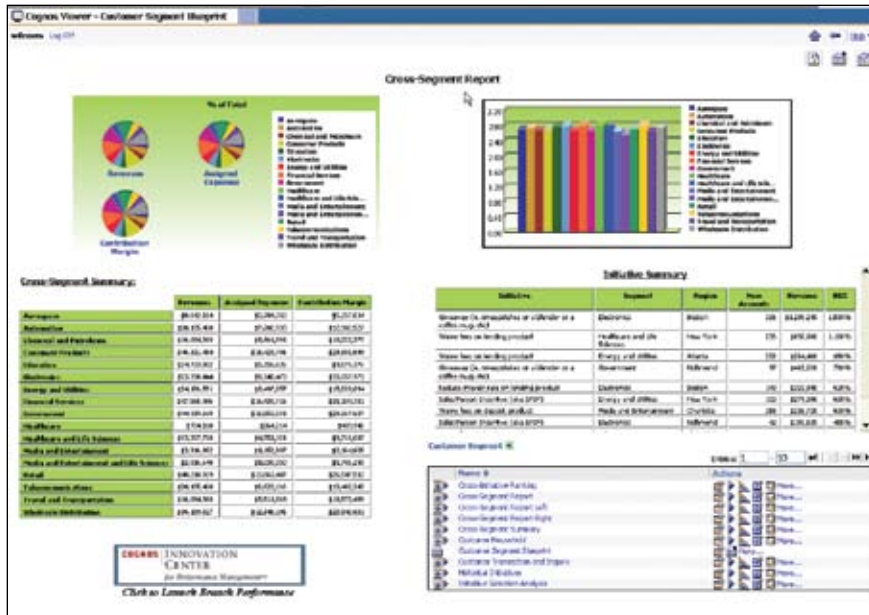
*Vice President, Finance,
\$20 billion USD bank*

Customer segment reporting, analysis, dashboards, and scorecards

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

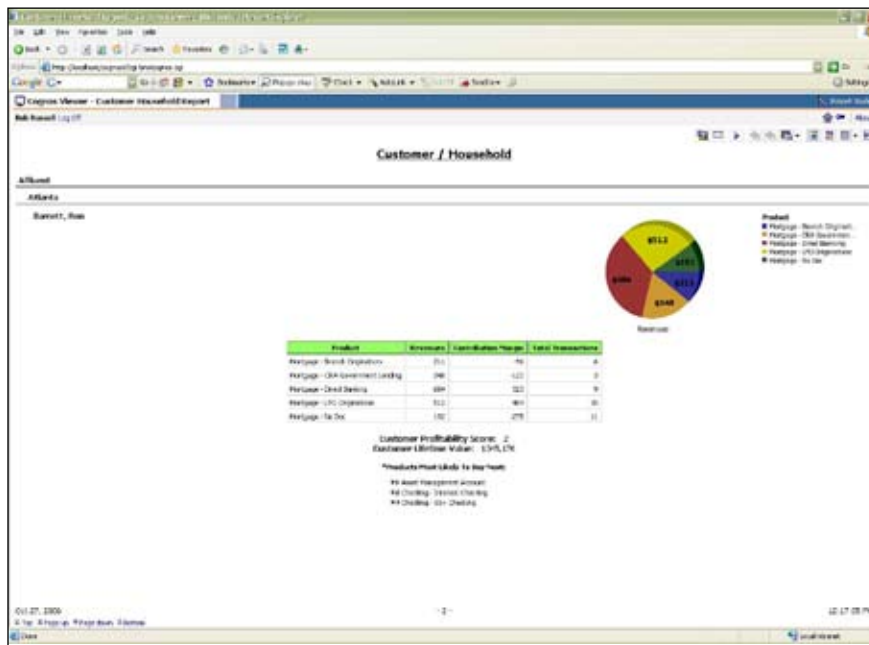
The first level provides a view of all customer segments (*Cross-segment Report*), which allows the user to understand at a glance how segments are performing across measures such as revenue, contribution margin, and accounts per customer. In addition, it highlights initiatives that are most successful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

Cross-segment Report



The lowest level of reporting is the *Customer 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). There is also a link to the *Customer Transaction and Inquiry Report*, which provides detailed information about recent transactions and inquiries.

Customer Report



Transaction Report

The screenshot shows a web application interface for a "Customer Transaction and Inquiry" report for "American Airspace Inc.". The table displays the following data:

Trans Date	Trans Type	Trans Channel
09/11/06	ATM	Deposit
09/06/06	Online	Payment
09/02/06	Online	Payment
09/05/06	Call Center	Payment
09/04/06	Call Center	Payment

Inquiry Date	Inquiry Type
09/02/06	Online
09/11/06	Branch
09/04/06	Online

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	Regional	Region	Price As a % of Cost	Revenue (\$)	Initiatives Total (\$)	# Initiatives	Revenue Rate (%)	ROI (%)
Generate (as, accessories or a Member or a affiliate, etc)	Americas	New York	282	373,389	1,871,921	963	20	178
Business (Member as a client product)	Americas	Atlanta	238	229,940	925,910	5,025	5	17
Business (Member as a client product)	Americas	Atlanta	87	812,389	382,360	5,793	1	8
Business (Member as a client product)	Americas	New York	273	829,839	691,585	5,882	3	12
Sales (as, Services (aka, SPS))	Americas	Atlanta	79	811,300	379,923	7,832	1	39
Sales (as, Services (aka, SPS))	Americas	New York	199	407,400	279,585	5,821	2	88
Sales (as, Services (aka, SPS))	Americas	New York	231	1,319,129	1,075,261	5,934	3	10
Sales (as, Services (aka, SPS))	Americas	Atlanta	295	923,180	298,140	5,683	4	113
Generate (as, accessories or a Member or a affiliate, etc)	Latin America	Charlotte	222	1,061,120	1,487,840	5,897	6	12
Business (Member as a client product)	Latin America	Milwaukee	79	179,539	151,940	3,994	2	18
Business (Member as a client product)	Latin America	Charlotte	141	275,549	225,540	4,943	4	3
Sales (as, Services (aka, SPS))	Latin America	Milwaukee	129	369,399	276,580	1,729	2	40
Sales (as, Services (aka, SPS))	Latin America	Charlotte	234	1,829,199	825,980	5,752	4	27
Sales (as, Services (aka, SPS))	Latin America	Charlotte	189	827,639	948,220	3,994	5	113
Sales (as, Services (aka, SPS))	Latin America	Milwaukee	103	825,389	108,980	730	39	3
Sales (as, Services (aka, SPS))	Latin America	Atlanta	271	1,128,220	1,129,320	118	230	18
Sales (as, Services (aka, SPS))	South Asia	Charlotte	147	1,019,600	380,920	5,920	3	947
Generate (as, accessories or a Member or a affiliate, etc)	China and Pacific	Beijing	101	832,180	518,380	2,983	2	2
Business (Member as a client product)	China and Pacific	Beijing	145	759,820	228,280	2,782	5	228
Business (Member as a client product)	China and Pacific	Fuzhou	114	138,820	828,880	5,888	3	74
Business (Member as a client product)	China and Pacific	Beijing	45	179,820	152,280	4,262	1	45
Sales (as, Services (aka, SPS))	China and Pacific	Fuzhou	349	1,422,920	718,940	5,560	3	49
Sales (as, Services (aka, SPS))	China and Pacific	Beijing	76	423,489	203,910	3,874	3	44
Sales (as, Services (aka, SPS))	China and Pacific	Fuzhou	203	694,420	295,280	5,789	4	71
Sales (as, Services (aka, SPS))	China and Pacific	Fuzhou	128	148,120	30,280	5,113	2	282
Generate (as, accessories or a Member or a affiliate, etc)	Consumer Products	New York	156	682,840	925,840	4,925	2	25
Business (Member as a client product)	Consumer Products	New York	142	929,840	299,560	6,274	2	29
Business (Member as a client product)	Consumer Products	New York	276	114,389	762,280	5,080	3	18
Sales (as, Services (aka, SPS))	Consumer Products	Atlanta	229	1,025,389	441,740	4,179	3	243
Sales (as, Services (aka, SPS))	Consumer Products	Atlanta	189	374,820	910,910	3,443	2	18
Sales (as, Services (aka, SPS))	Consumer Products	New York	239	1,429,399	491,140	1,021	186	229
Sales (as, Services (aka, SPS))	Consumer Products	Atlanta	107	67,329	729,480	1,867	13	40
Sales (as, Services (aka, SPS))	Consumer Products	Atlanta	142	983,320	381,360	4,492	2	49
Generate (as, accessories or a Member or a affiliate, etc)	Education	Charlotte	839	249,320	196,380	5,994	1	30
Business (Member as a client product)	Education	Charlotte	824	249,480	151,940	5,080	2	199
Sales (as, Services (aka, SPS))	Education	Milwaukee	72	24,520	129,740	4,022	1	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 Summary (by segment, by product or a combination of the two, etc.)				
Segment:	America			
Region:	New York			
Marketing Media Types:	Print Advertising, Direct Mail, TV Advertising			
Start Date:	Jan, 2004			
End Date:	September, 2009			
	Target	Actual	Variance	Status
# New Accounts	86	262	281	
Initiative Revenue	\$202,500	\$208,000	-(1,240)	
Initiative Cost	\$108,240	\$1,001,000	919,260	
# of Touches	1,708	063	-(1,363)	
Conversion Rate	5%	27%	22%	
Initiative ROI	133%	-13%	-13%	

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					Conversion Rate				
Financial Services					66%				
Acquisition Financing					62%				
Corporate Card					67%				
Segment	Product	Region	Initiative Date	New Accounts	Revenue (\$)	Initiative Cost (\$)	# Touches	Conversion Rate (%)	ROI (%)
Financial Services	Corporate Card	Charlotte	1/1/04 - 12/31/09	202	282,280	899,400	2,782	3	-20
Corporate Investment Management					70%				
Segment	Product	Region	Initiative Date	New Accounts	Revenue (\$)	Initiative Cost (\$)	# Touches	Conversion Rate (%)	ROI (%)
Financial Services	Corporate Investment Management	Charlotte	1/1/04 - 12/31/09	57	498,820	174,380	4,588	2	187
Credit Card Processing					80%				
Segment	Product	Region	Initiative Date	New Accounts	Revenue (\$)	Initiative Cost (\$)	# Touches	Conversion Rate (%)	ROI (%)
Financial Services	Credit Card Processing	Charlotte	1/1/04 - 12/31/09	135	196,200	86,000	9,796	3	42
Equipment Leasing					82%				
Payments and Disbursements					82%				
Trade and Financing Services					87%				
Treasury Management					88%				
Retail					64%				

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 Mixed
INITIATIVE COST				
Initiative Type	Wave 1 on off-line credits	Wave 2 on off-line credits		
Marketing Media				
TV Advertising	0	0	0	0
Radio Advertising	0	0	0	0
Direct Mail	0	0	0	0
Print Advertising	50,000	0	0	50,000
Local advertising	0	0	0	0
Other	0	0	0	0
Total Targeted Initiative Acquisition Costs	50,000	0	0	50,000
Forecasted Acquisition Cost/Account	137	182	0	137
Initiative Start Month	Jan 07	Nov 06		Jan 07
Initiative End Month	Jun 07	Jul 07		Jun 07
Region	Northwest	Total Region		Northwest
Target # of Accounts (Credit = A)	115	75	0	118
Target # of Accounts (Credit = B)	85	75	0	85
Target # of Accounts (Credit = C)	55	55	0	58
Target # of Accounts (Credit = D)	82	75	0	89
Per Account Profitability				
Revenue per account, per month (Credit = A)	65	65	65	66
Revenue per account, per month (Credit = B)	128	128	128	128
Revenue per account, per month (Credit = C)	163	163	163	168
Revenue per account, per month (Credit = D)	252	252	252	252
Life of Account (Credit = A)	48	48	48	48
Life of Account (Credit = B)	55	55	55	55
Life of Account (Credit = C)	63	63	63	68
Life of Account (Credit = D)	72	72	72	72
Lifetime Revenue (credit = A)	348,480	279,750	0	348,480
Lifetime Revenue (credit = B)	671,125	556,875	0	671,125
Lifetime Revenue (credit = C)	967,200	554,850	0	967,200
Lifetime Revenue (credit = D)	1,451,520	1,368,825	0	1,451,520
ASSIGNED EXPENSES				
Assigned Expense (Credit = A)	11	11	11	11
Assigned Expense (Credit = B)	24	24	24	24
Assigned Expense (Credit = C)	45	45	45	45
Assigned Expense (Credit = D)	73	73	73	73
Lifetime Assigned Expenses	666,510	719,310	0	666,510
NET PROFIT				
Total Lifetime Revenue	3,338,325	2,853,825	0	3,338,325
Total Lifetime Assigned Expenses	666,510	719,310	0	666,510
Total Initiative Cost	50,000	0	0	50,000
Initiative Net Profit	2,467,815	1,523,325	0	2,467,815
Change Revenue	0	0	0	0
Change Expenses	0	0	0	0
Change Business Units	0	0	0	0
Notes				
Target # of Accounts / Week (Credit = A)	18,333	7,778	0,000	18,333
Target # of Accounts / Week (Credit = B)	14,147	8,222	0,000	14,147
Target # of Accounts / Week (Credit = C)	85,000	8,111	0,000	15,889
Target # of Accounts / Week (Credit = D)	13,333	8,333	0,000	13,333

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 “Electronics” 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 Tags	Profit Loss	Initiators	Initiators Calc	Revenue & Expenses	Volume Activity Calc	Initiator Volume Activity Calc	Assigned Expenses	Balance Assumptions																																																																																																																																																																																																																																																															
<table border="1"> <thead> <tr> <th></th> <th>Scenario 1</th> <th>Scenario 2</th> <th>Scenario 3</th> <th>Scenario 4 (Base)</th> </tr> </thead> <tbody> <tr> <td>INITIATOR EXIST</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Marketing Model</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> TV Advertising</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td> Radio Advertising</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td> Direct Mail</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td> New Advertising</td> <td>50,000</td> <td>0</td> <td>0</td> <td>50,000</td> </tr> <tr> <td> New Advertising</td> <td>0</td> <td>50,000</td> <td>0</td> <td>0</td> </tr> <tr> <td> Total</td> <td>50,000</td> <td>50,000</td> <td>0</td> <td>50,000</td> </tr> <tr> <td>Total Targeted Initiator Acquisition Costs</td> <td>50,000</td> <td>50,000</td> <td>0</td> <td>50,000</td> </tr> <tr> <td>Targeted Acquisition Cost/Account</td> <td>1.00</td> <td>1.00</td> <td>0</td> <td>1.00</td> </tr> <tr> <td>Initiators Not Booked</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Initiators Booked</td> <td>50,000</td> <td>50,000</td> <td>0</td> <td>50,000</td> </tr> <tr> <td>Region</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> Target # 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of Accounts (Credit = B)	50	50	0	50	Target # of Accounts (Credit = C)	50	50	0	50	Target # of Accounts (Credit = D)	50	50	0	50	Per Account Profitability					Revenue per account, per month (Credit = A)	100	100	100	100	Revenue per account, per month (Credit = B)	120	120	120	120	Revenue per account, per month (Credit = C)	100	100	100	100	Revenue per account, per month (Credit = D)	200	200	200	200	Life of Account (Credit = A)	40	40	40	40	Life of Account (Credit = B)	50	50	50	50	Life of Account (Credit = C)	50	50	50	50	Life of Account (Credit = D)	72	72	72	72	Lifetime Revenue (Credit = A)	3,400,000	3,400,000	0	3,400,000	Lifetime Revenue (Credit = B)	5,400,000	5,400,000	0	5,400,000	Lifetime Revenue (Credit = C)	3,000,000	3,000,000	0	3,000,000	Lifetime Revenue (Credit = D)	1,440,000	1,440,000	0	1,440,000	ASSIGNMENT EXPENSES					Assigned Expense (Credit = A)	10	10	10	10	Assigned Expense (Credit = B)	24	24	24	24	Assigned Expense (Credit = C)	40	40	40	40	Assigned Expense (Credit = D)	72	72	72	72	Lifetime Assigned Expenses	960,000	960,000	0	960,000	NET PROFIT					Total Lifetime Revenue	3,340,000	3,340,000	0	3,340,000	Total Lifetime Assigned Expenses	960,000	960,000	0	960,000	Total Initiator Cost	50,000	50,000	0	50,000	Initiators Not Profit	2,490,000	2,490,000	0	2,490,000	Initiators Not Profit	50,000	50,000	0	50,000	Change Defaults	0	0	0	0	Risk	0	0	0	0	Change (Customer Profit)	0	0	0	0	NET					Target # of Accounts / Week Month = A)	10,000	7,778	0,000	10,000	Target # of Accounts / Week Month = B)	14,762	0,000	0,000	14,762	Target # of Accounts / Week Month = C)	10,000	0,000	0,000	10,000	Target # of Accounts / Week Month = D)	13,333	0,000	0,000	13,333
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NEW INITIATIVE REVENUE AND ACCOUNTS								
Relative Revenue	0	0	0	0	0	0	0	0
Relative 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	273,853	298,971	327,727	356,350	385,561	425,179	455,983	487,163
TOTAL AVERAGE ACCOUNTS	1,675	1,879	2,003	2,287	2,491	2,595	2,893	3,183

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, 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.

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The IBM 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.

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April 2009
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