IBM Customer Profitability Analytics Solution

Overview

The IBM Customer Profitability Analytics solution enables you to calculate and proactively manage the profitability of customers through a better understanding of key performance indicators like RAROC or profit & loss at an account level. This solution enables you to derive actionable insight from the vast stores of available customer data so you can better understand needs and gain a unique understanding of your customers - one that cannot be easily replicated by competitors.

With the IBM® Customer Profitability solution, you can maximize the value of your customer base by understanding the interconnected factors that influence profitability in a single, at-glance-view. It provides an easy to understand view of profit and loss statements at the individual account level and aggregated customer information including household data; personal and business connections; products owned; demographics; and profitability factors. The solution also includes predictive modeling so you can understand which products and services are most important to customers and which provide the biggest returns for the bank. With deep customer insights and the ability to predict customer lifetime value, you can make smarter decisions and execute marketing and sales strategies to increase the profitability of your entire customer base. The IBM Customer Profitability Analytics solution is comprised of three major software components integrated on a single, service-oriented architecture (SOA) platform and provides bank officials with credible and actionable profitability information to drive better business outcomes.

The foundation of the solution is a profitability calculator which can efficiently produce customer profitability statements. The solution uses best practice management accounting theory to calculate cost of funds, risk-adjusted return on capital (RAROC), provision for losses, and non-interest expenses using both activity-based costing and allocation methodology. It also calculates many key performance ratios (RAROC, return on equity, expense ratio, loan yields, deposit rates, return on asset, etc.) at the instrument or customer account level. The calculations are summarized in a multi-dimensional view to support best practice profitability reporting and analytics.

Figure 1: Key performance ratio calculations

The second major software component is a robust reporting capability provided by IBM Cognos® 10, which helps show profitability information for the right business users, at the right time, and in their preferred format. The solution includes executive dashboards and scorecards for each major line of businesses in a bank, as well as financial analyst or marketing dashboards highlighting key performance indicators pertinent to the each role. With IBM Cognos 10, leading banks are enabling business- and customer-facing users to think and act based on facts, instead of just intuition. The user experience supports the way business users think and the new business intelligence (BI) workspace delivers greater power and intuitive navigation in a clean, visual way.

The Cognos 10 platform also provides built-in collaboration and social networking – fueling the exchange of ideas and knowledge that should naturally occur in the decision-making process but is lost in many organizations due to departmental silos or manual processes. By providing the ability to form communities, capture annotations and opinions on common reports, and share insights, decision makers can collaborate more effectively with teams around the world or across the hall. The collaboration and social networking capabilities also help to build a corporate memory that can be capitalized on for competitive differentiation and customer service.

Cognos 10 also delivers mobile and real-time insight, and BI mash-up capabilities that transform reporting and analysis from a periodic activity into the center of everything you do. By delivering self-service reporting and analytics to customer facing employees or sales executives on the go, you can expand adoption and analytics use while helping ensure people spend less time debating the numbers and more time focused on improving the business.

The third major software component is predictive analytics, which combines historical information and customer attribute data to predict lifetime value, new opportunities or retention targets. Predictive models help you understand and anticipate what customers want and will do next by uncovering patterns in the data and predicting the likelihood of future events. For example, you could use analytics to calculate customer profitability and apply predictive models to identify those with highest lifetime value. Predictive analytics can then be applied to find similar customers or the most receptive segment for cross sell initiatives, and the most relevant offer for them.

Figure 2: Executive profitability dashboard for a retail bank

The IBM Customer Profitability Analytics solution can help banks obtain the following capabilities:

- Calculate and monitor the profitability of each customer.
- Provide an integrated view of profitability for key dimensions including:
  - Product
  - Line of business/organization
  - Customer
  - Geography
  - Time
- Understand customer needs and propensity to buy new products.
- Enable real-time "What if" profitability scenario analytics.
- Predict customer lifetime value.
- Perform profitability forecasting and planning.
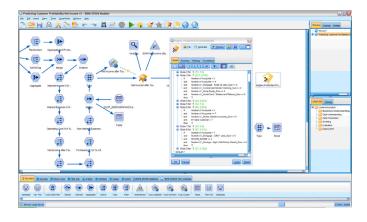- Get a 360 degree view of customers and their product profiles.

Figure 3: Predictive model for customer profitability

Competitive differentiation with profitability analytics

The IBM Customer Profitability Analytics solution helps bank leaders develop a unique understanding of their customers' needs and wants that cannot be easily replicated by competitors. By understanding who your most valuable customers are, what they want, and how they will behave in the future, you can better and more cost-effectively meet their needs. You can also use those insights to help improve marketing responses, develop cross-sell strategies, increase customer satisfaction and retention, and grow revenue.

Here's one simple scenario that illustrates how profitability analytics could optimize the way bank leaders interact with customers.

- Bank leaders use analytics to identify and profile attributes of the most profitable customers.
- The bank leaders determine which customers are similar to the "ideal customer" based on their behavior and the products and services they use.
- Using analytics and decision optimization, the bank leaders pinpoint the best offers for these "almost ideal" customers to make them more profitable.
- Predictive analytics can then be used to help the bank leaders predict the marketing channels these customers will most likely respond to and use these insights to develop and execute an effective cross-sell campaign.

In this way, the bank leaders can move customers along a path to increased profitability and maximize lifetime value.

IBM Business Analytics for Banking Solutions

IBM offers proven business analytics solutions for banking that combine powerful IBM Cognos business intelligence and IBM SPSS® predictive analytics technologies. This comprehensive approach helps deliver the key capabilities required to generate the dramatic benefits and competitive advantage of customer analytics. Through business intelligence reports, scorecards, dashboards, analysis, predictive modeling and real-time monitoring, you can gain a single, unified view of each customer. By consolidating vast amounts of customer data, IBM's business analytics for banking helps deliver actionable intelligence and predictive insights into behavior, revenue streams and the profitability of customers.

Conclusion

For bank leaders who want to grow revenue and improve profitability, understanding the customer is essential. By applying analytics to the vast stores of available customer data, leaders gain actionable insights that can help them drive strategies and initiatives to build trust and profitable, long-term relationships. By enabling the optimization of everything from marketing campaigns to customer retention efforts; cross-sell and up-sell initiatives; customer service; and pricing decisions, customer analytics empowers bank leaders to increase share of wallet, outmaneuver the competition and maximize the profitability of each customer.

About IBM Business Analytics

IBM Business Analytics software delivers complete, consistent and accurate information that decision-makers can trust to improve business performance. A comprehensive portfolio of business intelligence, advanced analytics, financial performance and strategy management and analytic applications gives you clear, immediate and actionable insights into current performance and the ability to predict future outcomes. Combined with rich industry solutions, proven practices and professional services, organizations of every size can drive the highest productivity and deliver better results.

To learn more about how IBM business analytics for banking solutions can help your organization achieve its business goals, please visit:
ibm.com/software/analytics/banking