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CASE STUDY: SCORECARDS AND SALES GOALS

In the past quarter, Bancography assisted three banks with developing scorecards and sales goals to track branch sales performance. Scorecards represent an integral part of a branch incentive system. By defining the primary drivers of incentive payments, the scorecard reinforces the bank's sales training efforts. A scorecard must capture the primary drivers of branch growth and remain easily explainable to branch personnel. Further, it should only measure items within the branch's direct control. Finally, it must allow automated tracking that facilitates quick distribution of results and incentive payments. A recent project for a $2 billion bank illustrates the key elements in designing an incentive program.

The bank previously measured net change in deposits. Although essential to the bank, overall, many factors influencing deposit growth remain beyond the control of branch personnel. Branch staff hold little control over whether balances in existing accounts change, and growth also depends on the competitive rate environment. The true objective of this component is to facilitate growth in core deposit relationships since balance growth naturally follows core account growth. Thus, the revised scorecard tracks new checking, money market, and savings accounts. There is no credit for CDs, which depend more on external factors than on sales skills and no differential credit within product types, to maintain a focus on needs-based selling.

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CREDIT UNIONS TAKING BANK MARKET SHARE WITHOUT THE ASSOCIATED BANK ATTRITION

In an effort to provide as much value as possible to client market research studies, Bancography includes primary and secondary market share questions on any masked telephone study. Recently, our researchers have noticed that credit unions have blown past the statistical significance levels in our client studies. In a retail market awareness and competitor research study conducted last September, credit unions amassed 10% primary market share. In this same study, regional banks captured 75% market share, and community banks had 13%. Further, Bancography conducted a research study in the wealth market in November, where primary market share was measured, as well. Interestingly, this was a masked study of this bank's own clients. Considering such severe fragmentation in the wealth industry, this bank fared well with 62% of its own private banking and wealth customers identifying our client as their primary financial provider. However, 3% of this bank's affluent customers identified a credit union as their primary financial service provider. In both studies, credit union loyalists boast that their institution's customer satisfaction is flawless and almost none of them intend on switching providers, ever.

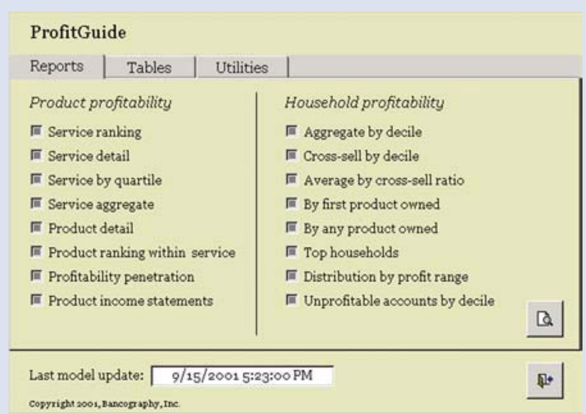
PROFITGUIDE, PRODUCT & HOUSEHOLD PROFITABILITY SOFTWARE

Understanding profitability at the product and customer level remains critical to developing financial marketing tactics. However, many banks lack such data due to the cost and time associated with implementing comprehensive cost accounting systems.

Bancography has built profitability models for many banks. Bancography's models emphasize the major drivers of profitability to provide a relative ranking of product and household profit levels. Our models facilitate tactical marketing decisions at a much lower cost than traditional cost accounting systems.

After completing profitability projects, we're often asked to update our models in subsequent years. While we welcome opportunities to return to longtime clients, we believe that we can best serve you by providing tools with which to update models in-house. Accordingly, we developed ProfitGuide.

ProfitGuide allows you to compute product and household profitability reports internally, as frequently as you wish. ProfitGuide provides a suite of graphs and management reports that will prove useful to any marketing manager. The software features an intuitive user interface, professional reports, and full "help screen" support.



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The bank is committed to increasing its cross-sell ratio across its customer base. It had previously measured the absolute change in branch's cross-sell ratio on a quarter to quarter basis. But for a mature branch, even significant account additions change cross-sell ratios only glacially. The bank needed a statistic that would differentiate between branches and exhibit noticeable trends. Accordingly, it split cross-sell measurement, and now tracks both cross-sell to new households and absolute product sales to existing customers.

A scorecard can not replace sound management. Certain behaviors that remain crucial to branch performance still do not belong on a sales performance scorecard. In an effort to return the scorecard to a pure sales management tool, the bank eliminated audit scores and cash outages although these remain essential components of a branch manager's performance review.

Once the bank determined its measurement categories, Bancography recommended sales goals for each branch. Goals were determined through the following process:

1. Plot existing customer households on a map to reveal each branch's drawing area.
2. Using a demographic model, predict demand for each product for each branch's trade area.
3. Subtract the bank's existing holdings to yield available demand.
4. Scale available demand based on the bank's likely penetration, given the competitive environment in its market.

This process yielded equitable, market based sales goals, rather than goals based solely on historic performance.

Winner's Circle Incentive

Winner's Circle

Fourth Quarter, 2001

Region: West
Branch: Clarksville

	Oct	Nov	Dec	Total	Goal	% goal	Max	Weight	Value
Production									
Deposits	20	25	34	79	61	130%		15%	20
Loans ($000s)	358	277	401	1,036	1,200	116%		15%	17
Investments ($000s)	85	70	78	233	240	97%		15%	15
Mortgages	6	6	4	16	12	133%		15%	20
Retention	1	3	2	6	9	100%	X	5%	5
Cross Sell									
Sales to existing HHs	13	20	19	42	40	105%		15%	16
Cross sell ratio	2.40	2.60	2.20	2.40	2.75	87%		20%	17

Percent of goals: 110%

Bancography developed a software tool that imports mainframe extract files to calculate each branch's performance against the sales goals. The software produces management quality reports, and reporting that previously required two weeks now consumes only 2 hours. The software prints individual branch scorecards, corporate rollups, branch rankings, and payroll reports.

By simplifying the scorecard, automating its tracking, and incorporating market factors in its sales goals, the bank has improved its employees' acceptance of the sales management process. This allows increased attention to sales training, which, in turn, will yield increased sales performance. In a future issue of Bancology, we will outline how to quantify the financial return from an incentive system.

Current Events

Bancography will be an exhibitor, as well as speaker, at both the 2002 ABA Financial Services Customer Conference and the 2002 ABA Call Center and Telebanking Practices. Both conferences will be held April 21-23 at the Renaissance Vinoy Resort and Golf Club in St. Petersburg, FL. Kimberly Clay will present findings from recent Market Awareness and Competitor Research studies, and Steven Reider will discuss results of our Call Center Benchmark Study.

Credit union attendees at BAI's Retail Delivery Systems conference in Anaheim in December are very interested in Bancography. With the recent collapse of governmental walls hindering non-profit network expansion, credit unions are preparing for rapid branching in 2002. As a result, many credit union strategists visited our booth to view our BranchPlanner software and to inquire about delivery system consulting. Community and commercial banks had better watch out!

On March 1st, we will unveil the 2002 release of BranchPlanner, our network optimization tool. The 2002 version includes the following enhancements:

1. Credit Unions will be added to competitor tables
2. Enhanced demographics at the census block level
3. Summary business statistics will now be available

Performance Measurement: How to Calculate Cross-Sell, Retention, and Churn

Increasing cross-sell, improving retention, and reducing churn rank at the top of every bank's strategic priorities. But there are no standard definitions for these measures, and different calculations can yield sharply different views of a bank's performance. In an effort to clarify the issue, we present Bancography's definitions for these critical measurements:

Cross-sell ratio: Defined as the number of products per household, cross-sell represents a primary measure of relationship depth and loyalty. Because banks include different products in their cross-sell statistics, it is difficult to compare results or even know which measurement is appropriate. Banks can easily inflate cross-sell statistics by including products that do not enhance the relationship's profitability or tenure. Here are some guidelines for building a measure that captures the depth of your customers' relationships:

- Count services, not products. A household with 3 CDs is no more likely to remain loyal than a household with 1 CD.
- Do not include non-revenue services. Direct deposit and ATM cards are simply means of accessing a checking account. These products are as inappropriate in a cross-sell calculation as check orders.
- Count all services with balances and also include safe deposit boxes and related services such as trust, investments, and insurance.
- Calculate across households, not customers. If a woman owns a mortgage, and her husband owns a checking account, the bank is meeting two needs of that household although each customer owns just one service.

Retention: Retention can be calculated in terms of households, accounts, or balances. The lattermost may be most important. Some research studies estimate that over 80% of the decline in retail profitability arises from balance declines in open accounts, rather than from account closures. But, each measure has benefits and drawbacks:

- Household retention: what proportion of households that were present last quarter (or month or year) remain with the bank today? This is the simplest measure to calculate and does not penalize a bank for changes that occur in a consumer's portfolio as part of his normal financial life cycle, such as paying off a loan. But, it would consider a household that closed many accounts retained even though the value of that household would have diminished significantly.
- Account retention: what proportion of accounts that were present last quarter (or month or year) remain with the bank today? This more rigorous definition detects the impact of closed accounts though not balance reductions. By definition, it will always be lower than household retention. An effective measurement for deposit accounts, less so for installment loans, which have a defined lifespan.
- Balance retention: what proportion of accounts that were present last quarter (or month, or year) remain with the bank today? This may be the most effective measure of profitability, but it can be influenced by market conditions such as the rate environment. Also, balance attrition in one product could reflect growth in another; for example, withdrawal from a checking account for a down payment on a mortgage account.

Churn: Often, high new account volumes mask low growth in a bank's overall account base. Some banks need to open as many as 12 new checking accounts just to net one incremental account in their portfolio a year later. We measure this with a statistic we've named the *replenishment ratio*. Calculated as closed accounts divided by new accounts (within the same period), it shows how much of the bank's production has gone simply to offset closures – or to "break even." The lower the ratio, the better. For example, if a bank closes 70 accounts in a month and opens 100 in the same month, its replenishment ratio is 70% since 70% of its sales efforts went toward offsetting lost accounts.

ProfitGuide Continued, from page 1

ProfitGuide produces complete income statements for all products, displays comparative reports, and ranks all customers with profit scores to allow differential sales and service initiatives. ProfitGuide supports individual product and product line level analysis.

We are seeking institutions to test ProfitGuide. In exchange for your comments, Bancography will license ProfitGuide at a substantial discount. We are offering ProfitGuide at a pilot price of $7,500, with no annual maintenance fees.

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