PROFITABILITY

PROFITABILITY

Real Life Answers

Written By: Jay Kassing
© Copyright CSI, 1999

MANAGING IS EASIER IF YOU have all of the facts. Quite possibly the most important element of effective Marketing is understanding and using Customer and Product Profitability information effectively.

UNRAVELING THE *mystery*

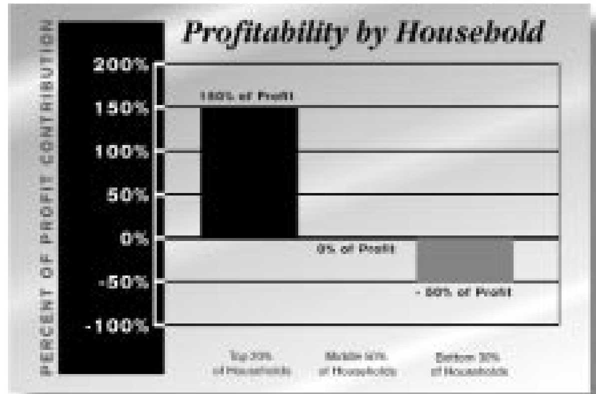
Yet you may find it amazing to learn that most of us who are responsible for managing and marketing, do not know which of our customers are profitable! Research has proven that 75 percent of us fall into this group. Amazing isn't it? Yet as marketing professionals, we should know this, shouldn't we? After all, this is our business. Continuing the bad news,…we don't even know which of our customers are unprofitable. It's crazy! And, it's more than just a little embarrassing. Yet the facts are the facts.

The goal of this booklet is to help you embrace and understand "real life" profitability and how it impacts at your financial institution.

In the following pages, you should gain a much better insight of what "real life" profitability is, what the differing Methods of calculating profitability are, and what the results should mean to you – and your institution. This booklet will try to de-mystify what some consultants and profitability gurus try to mystify. Hopefully you will also learn how to better use Profitability information, so that you can better focus your marketing efforts on projects that produce the highest return on investment (ROI).

KEEP YOUR *customers*

As competition from the non-bank sector and your peer financial institutions continues to heat up – you must at least be able to execute one key strategy – Protect thy Turf. In other words, retain your customers. Further to this thought, especially retain your best customers. Naturally. While we all agree that this strategy makes at least some sense, we (the 75%) have one significant challenge. We do not know who our “best” customers are.



Let’s be clear though. We do wish to keep and nurture all existing customer relationships. Recently, the First Manhattan Consulting Group updated a study they have produced for years and come to be known for. According to the study, just 20 percent of your customers bring you about 150 percent of your profit. Amazing isn’t it? If this is true, shouldn’t you especially want to keep these high performers? Say yes.

Okay. Now that we agree on “protecting thy turf,” just how do we ascertain who your highly profitable customers are? There are many ways. In fact, there are as many profitability formulas as there are profitability experts. In a moment we will delve into many of these options. However, let’s spend a little time further determining the value of understanding who is and who isn’t profitable – and how knowing can help you and your institution achieve your bottom line profitability goals.

As with all technology products today, a great word to associate with profitability is "enable". Just as you want to enable technology for very specific purposes, you need to "enable" the profitability knowledge you gain about your customer relationships. In other words, you need to take action on what you learn about who is and who isn't profitable. To learn this information and then allow it to die on a desk in some report is unacceptable. In other words, knowing who is and who isn't profitable is not the end – it just is the beginning.

THE VALUE OF *knowing*

Many believe that getting new customers is paramount to successful selling and increasing profitability. Yet study after study has proven that it is dramatically easier and more cost effective to market to and then cross-sell something else to an existing customer (8-10 times easier, in fact) than it is to seek out new accounts with someone who has never done business with you. Unfortunately, while this is true, most financial institutions are still driven to seek new customers, even though the cost to do so runs counter to simple real life marketing principles.

Why then is there this disconnect? It may simply be the result of inertia. Those of us in the financial community have always done things in certain ways. This pattern of gaining business the same old way is the inertia that we must fight. Have you ever heard the phrase, "you need to work smarter not harder"? In using the old ways, you may be working too hard. Work smarter by finely targeting profitable opportunities within your own customer base, or even to the prospects that have the same "profile" as your best clients. A profile is an outline that describes the key demographics of a group of customers. For example: When reviewing the demographics of your best

customers, what is their net-worth? How about their annual income? Do they own their own home? What is their age? Do they have children? Fascinating information, isn't it? (All of these elements are easily known about your customers for virtually nothing.)

Now that you have an understanding of what a good customer looks like (a profile), do you have any other customers who may not provide the same profit contribution today, but still fit this profile? Might they be good potential customers? Definitely. When asking these questions, some people are reminded of the old saying, "if it looks like a duck, and walks like a duck…it's probably a duck!" Also, what prospects in your market fit this specific profile? Profitability information gives you the power to focus your marketing energy (thereby enabling it), where you can have the greatest impact on profits.

The concept just described has been used very successfully by the non-bank world. Companies such as Schwab, Fidelity and the rest, have used this method of targeting and profiling for years. Yet to do it, you must first know who and where your profitable customers are. After that, marketing gets much easier. Work smarter, not harder.

In addition, please note the subtle

inference that your able non-bank

competitors are targeting

your best customers.

They know who they are,

even if you don't.

PROFITABILITY *goals*

It is critical when evaluating the various Profitability Methods to understand the goals you wish for them to help you achieve. Much as you would any product, service, concept,… you need to visualize the end results or real life benefits of something to arrive at your expectations. Your goals must meet your expectations.

The goals you have should relate directly to what you want to do with your profitability results. Here are just a few of the goals that many financial institutions have for profitability knowledge.

GOALS

- Retention of high profit customers
- Profile for optimum Cross-Sell Customers
- Profile for ideal Prospects
- Product Re-Pricing
- Risk/Opportunity management
- High ROI Direct Marketing
- Incentive–based Compensation
- Geographic Analysis of high/low value customers/prospects

With effectively outlined goals, determining the Profitability Method that is best for your situation is dramatically easier. For some, your ability to gain access to the most accurate of Methods will unfortunately relate directly to the data about your customers that is unavailable or unknown. To help you determine your goals, answer the four questions below.

1. *Is the request for profitability coming from Marketing or from your Chief Financial Officer?*
2. *What Profitability information is available from your institution?*
3. *Would you consider your institution's need for profitability to be about average or more sophisticated?*
4. *In the near term (12-18 months), would you want to use the profitability results to help you establish and manage incentive based compensation?*

Take the answers to these questions with you as you evaluate the different Profitability Methods described on the following pages. Measure your needs against real-life time constraints and your marketing priorities.

Calculating profitability makes me think of the Time-Life books, "The Great Mysteries of Life." UFOs, the great Pyramids, Stonehenge, and Profitability make up a wonderful collection of mysteries. Yet how do we unravel this mystery so that you can take full advantage of your opportunities for bottom line growth?

PROFITABILITY *methods*

While you may not choose to be a "Profitability Expert," it is valuable for you to understand the basic methods that those who are "in the know" use to calculate profitability. Without getting into the real nitty-gritty or using a lot of jargon, you should be able to get up from reading this booklet and be much more comfortable about what all of this Profitability hoo-hah is about. And maybe more importantly, you'll know how it impacts you, your institution and your marketing strategy.

Hopefully you will find these descriptions to be clear and understandable. Keep in mind that each Profitability Model that is described becomes a subset of the next one. In other words, each subsequent method progressively builds on the last one.

Let's evaluate the options.

1

THE SIMPLE MARGIN

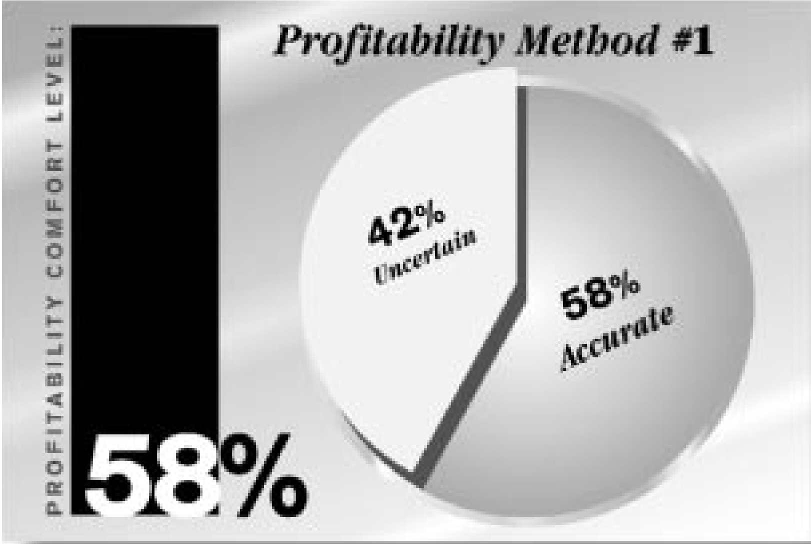
— Method —

When looking at your institution's General Ledger, you can quickly see that 60-70 percent of your institution's bottom-line profit comes from the interest income (the margin between what you pay on Deposits vs. what you charge on Loans). The Simple Margin Method easily allows you to see the big picture of what is happening at your institution. Much like a water color painting, this method gives you a visual sense of what is going on vis-a-vis profitability, but it is hardly as clear as a photograph. This Method is probably not as trustworthy as every other Profitability Method known.

PROFITABILITY COMFORT LEVEL: 58%

ADVANTAGE: Quick and Easy. This Method accounts for the biggest profit producing piece of your G/L, interest margin.

DISADVANTAGE: Does not take advantage of the rest of the information on the G/L, like non-interest income or non-interest expense, nor transaction based data like the # of Checks, ATMs…



This Method is probably not as trustworthy as every other Profitability Method known.

2

The Simple Margin with FED FUNCTIONAL COST *— Method —*

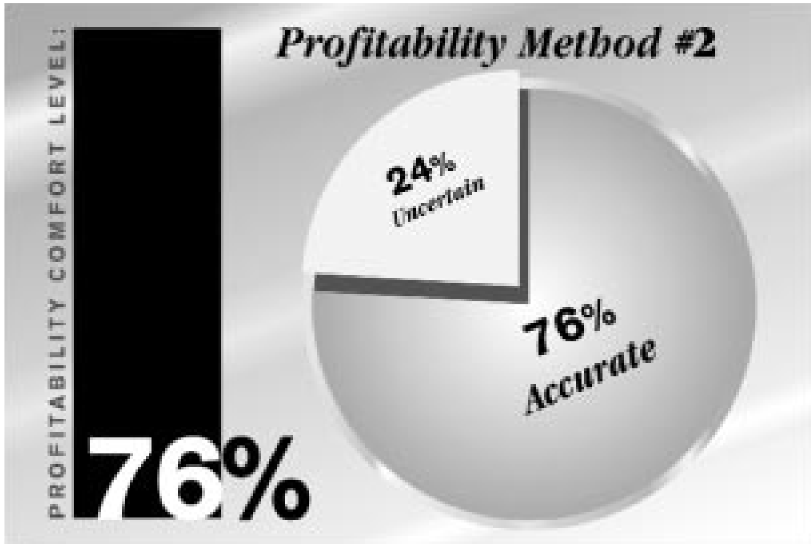
Annually, the Federal Reserve Board conducts a survey (Functional Cost Analysis - FCA) to ascertain the basic costs (non-interest expense) and the basic revenues (non-interest income) of products and services at financial institutions. These cost figures are tabulated and then averaged so as to provide a general guideline as to the baseline costs/revenues of respective products for comparative purposes.

If you were to use these Fed Functional Cost numbers (as a surrogate for the non-interest expense and income numbers for your products and services), and then add the Simple Margin Spread Analysis to the numbers, you would get a great deal closer in defining your institution's "real life" profitability.

PROFITABILITY COMFORT LEVEL: 76%

ADVANTAGE: Quick and Easy. This Method generally accounts for the large components of data on your General Ledger that help define real life profitability. Quite possibly this is enough to satisfy some Marketing Goals.

DISADVANTAGE: While this method does account for general non-interest income/expense along with interest income (margin), it does not take advantage of other activity based specifics about your customer accounts like transaction based data, i.e. # of Checks, # of ATM uses, NSFs… In addition, using the Fed's FCA estimates for non-interest income/expense may not be specific enough for many.



This Method can

help you get closer

to defining your institution's

"real life" profitability.

3

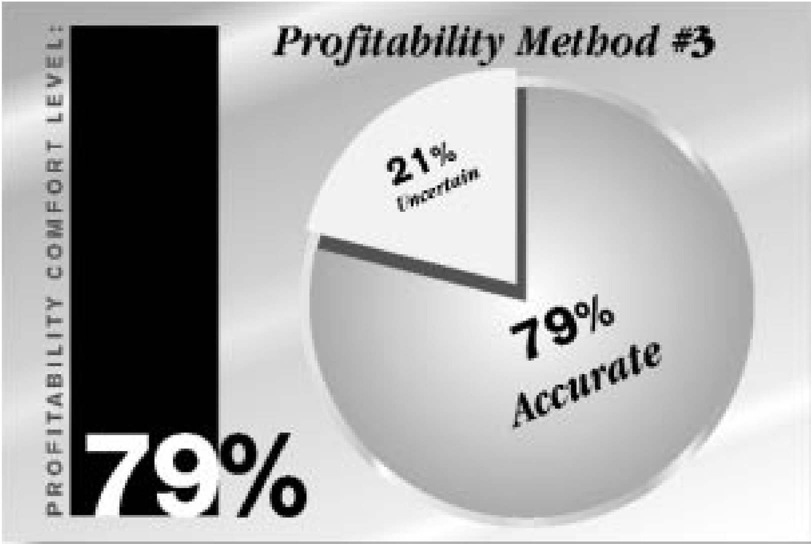
The Simple Margin with Fed Functional Cost (FCA) and INSTITUTION SPECIFIC FEES *— Method —*

This profitability method is identical to the second, except that it specifically accounts for your institution's non-interest income. In other words, this method still uses the cost (non-interest expense) estimates provided by the Federal Reserve in their FCA analysis, but it uses your actual non-interest income to precisely determine the net of your non-interest income vs. expense numbers.

PROFITABILITY COMFORT LEVEL: 79%

ADVANTAGES: Quick and Easy. Accurate enough for most Marketing based Profitability Goals. This method accounts for all of the big component parts of the G/L,… specific non-interest income, Fed estimated non-interest expense estimates, along with net interest income (margin). In addition, because it uses your institution's specific numbers for non-interest income, the data is more reliable. This Method is all many will use to help them drive Marketing Goals.

DISADVANTAGES: While this Method can move you closer to your Profitability Comfort Level, it still lacks important data to be wholly accurate. Because this method still uses the Fed Functional Cost estimates as a surrogate for your actual non-interest expense numbers and does not take into account activity based costs like checks, ATMs and the like, it may not measure up to the needs of institutions with highly sophisticated profitability goals.



This Method is all

many will use to

help them drive their

Marketing Goals

4

Simple Margin with FCA & Institution Specific Fees, along with TRANSACTION ACTIVITY *— Method —*

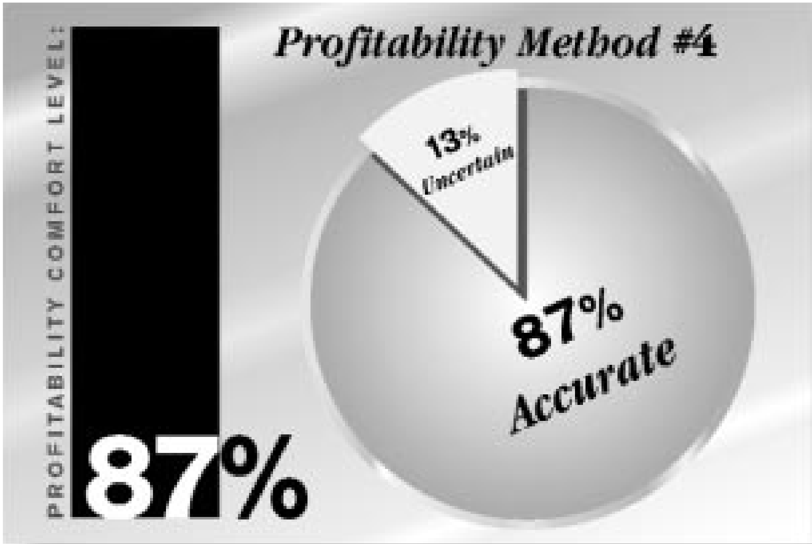
For institutions who have transaction data available to them, it is worth using. Understanding product use patterns is especially helpful in re-pricing and staffing – not to mention its inherent value in fully calculating your institution's profitability. This method can especially help you determine which relationships aren't profitable because of their high cost use activities.

PROFITABILITY COMFORT LEVEL: 87%

ADVANTAGES: Quick and Easy, if activity based data is available. Accurate enough for most every Marketing based Profitability Goal. This Method is as sophisticated as most want or need. Certainly it is an effective starting point.

DISADVANTAGES: For many institutions, this option is not available, because their core data processing system does not capture nor retain activity based transactions like # of Checks, # of ATM uses, # of NSFs, # of times below minimum balance, # of late fees… Unfortunately, because this is true, the Profitability Methods available to calculate profitability for some financial institutions ends here. Some have hired consultants and/or additional staff to help re-create or gain specific insight on activity based costing, in the hopes of accessing this powerful information. For many, it is not worth the investment. For others, it is unthinkable to not have these numbers. You need to decide what you should do (if this data is unavailable), based on your goals.

If you have and can use this activity based transaction level data, there aren't many disadvantages to this Method. Except that as with Method #3, this scenario uses the Federal Reserve's Functional cost estimates (FCA) that may not reflect your own non-interest expense data as accurately as possible.



If you have and can use your activity based transaction level data, there aren't many disadvantages to this Method.

If you find your head spinning
from all that we have described to this
point, you may choose to skip ahead.
Further exposure to explicit profitability
methodology has been banned by many
marketing organizations.
For those of you who wish to
continue, glad to have you.
We are now going to start getting into the
more specific, or some would say
sophisticated Profitability Methods.
Hang on.

5

Simple Spread with FCA & Institution Specific Fees, along with Transaction Activity and LIMITED MARGIN ALLOCATION — *Method* —

This Method sounds complicated, but it really isn't. Method #5 takes into account all that we have been able to do thus far. We are using the Fed estimates for non-interest expense, your institution's actual non-interest income (fees), the transaction level data available to you, and then calculating the interest margin to get our full Profitability picture. To this we can adjust, on a limited basis, the margin allocation for certain specific account types. For Example: instead of calculating the interest margin of a 30-year conventional mortgage against your general deposit rate, you may wish to calculate the margin for this particular product to a fixed outside cost that matches the implied maturity term, like a 7-year treasury. In this way, 100 percent of the margin goes back to the specific Conventional Mortgage Loan account, and none to your pool of deposits.

This activity, done on a limited basis, can get you even closer to mirroring exactly how you manage the asset/liability side of your institution. Profitability Methods are only as good as the data available. Inasmuch as you have the ability to manage your interest margin, even on a limited basis, it can help you improve your confidence in the results.

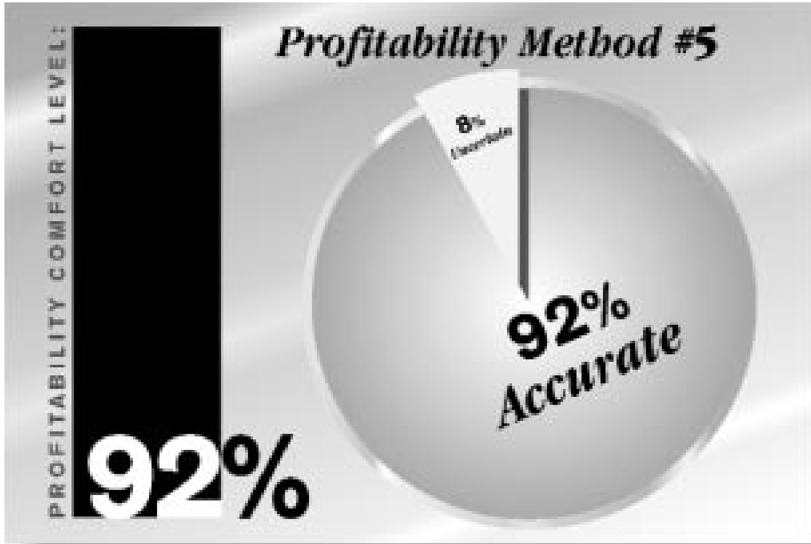
This Method is more closely associated with the Treasury/Financial/CFO side of your business than it is the Marketing side. It is at this point where many seek the advice of outside Profitability counsel. If it is your goal to get your profitability as close to your "real life" as possible, you need to seek the advice of true profitability experts (IPS-Sendero…).

PROFITABILITY COMFORT LEVEL: 92%

ADVANTAGES: More accurate than the methods described heretofore. The more margin allocation to outside fixed points that you can describe, the more accurate the results. Accurate enough for Marketing based Profitability Goals. Produces additional buy-in and support from your financial side, who gains confidence in the results. And, tying margin to outside fixed rates can dispel the internal arguments over which products should get

the benefit of the margin – the loans or the deposits.

DISADVANTAGES: Not so quick, nor as easy as every other Method described heretofore. Unfortunately, because this is true, many will not advance to this level of Profitability. This Method does require assistance from your CFO/Cashier/Treasury Department.



Margin Allocation, done on a limited basis, can get you even closer to mirroring exactly how your institution manages asset/liability risk.

6

MATCHED POOL FUNDING,

Institution Specific Costs/Fees, along with Transaction Activity — Method —

This Method has many stripes and nuances. It is in this Method where the "Profitability gurus" debate the esoteric pros and cons of the minutest of details. CFO's will need to gain confidence that your institution will at least be able to get to this point some day (if not now). For many, knowing the smallest details make a real difference.

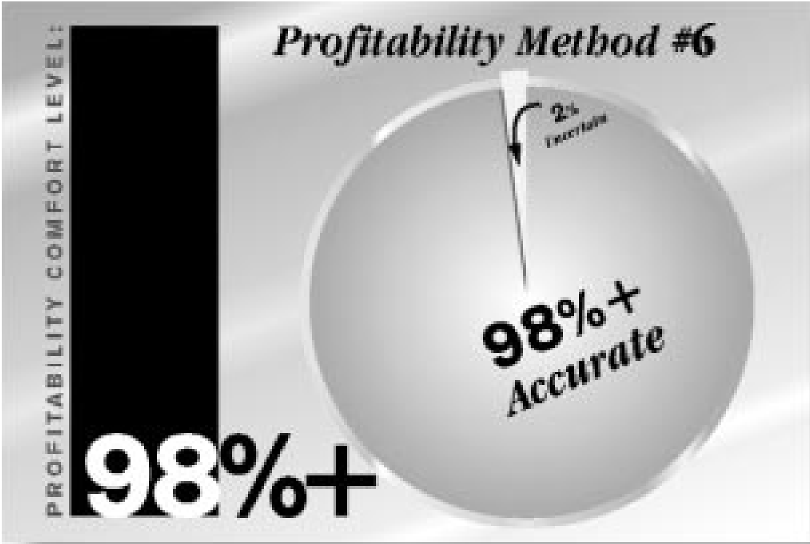
Unlike the previous Method (where a limited number of accounts were measured against outside fixed points for margin allocation), all account types will be allocated. Some will be specifically placed in single pools for matching (like the 30-year Conventional Mortgage/7-year Treasury implied maturity example above), while still others may be placed in a matched pool designed to more accurately allocate their margin. Sounds great huh?

This is where formal profitability software (provided by IPS–Sendero and others) is best employed. If your Profitability goals are specifically directed by the financial side of your institution and not by and for the Marketing side, then you need these experts involved in helping you evaluate what is possible and what is real life. It is important to measure your institution's need for more and more accuracy against the natural diminishing return.

PROFITABILITY COMFORT LEVEL: 98%+

ADVANTAGES: In a word, Accuracy. Confidence is another advantage that comes to mind.

DISADVANTAGES: In a word, Costly. The other real life disadvantage is that this method requires a great deal from your Treasury Department/CFO and staff. This Method consumes a great deal of time and resources to set up, and continues as an ongoing project.



For many, knowing the smallest

details makes a real difference.

It is important to measure your

institution's need for more

accuracy against the real life

diminishing return.

Given the general descriptions of the Profitability Methods outlined above, you need to select the one that most appropriately helps you meet your goals. Once you have selected the formula that best meets your immediate need, run your institution's actual account data against the formula and review the results. But how?

NOW *what?*

The easiest way to arrive at Profitability for your institution is to select a "Profitability Capable" MCIF Software Program or a full blown Custom Profitability Solution. These software tools will assist you in meeting your profitability goals. It is in these products where the respective Profitability Formulas (methods) are readily found. If you select a Custom Profitability Solution, you will still need to use the profitability results these tools provide inside a formal Database Marketing program (MCIF) to do something with the information. Remember, getting profitability results is only the beginning, not the end.

Regardless of your product or solution of choice, remember that flexibility is key. Your needs will change as sure as the interest rates will. How easy you and your staff can manage the changes to the data and to the formulas themselves dictates your future achievement of the goals you have outlined. Get complete flexibility.

For the sake of this booklet, let's assume you have your institution's results. First of all, the information will astound you! Your pre-conceived marketing notions will either be confirmed or denied given a heavy dose of profitability based reality. And isn't this exactly what you wanted and need? If you have been selling unprofitable products, you want to know so that you can stop. If you have good customers that have been all but ignored, you want to make contact. Knowing who is and who isn't profitable opens up a world of opportunity. And understanding your profitability facts allows you to work smarter not harder.

There are two primary reasons why financial institutions need profitability information. The first one is a need to measure Customer Relationship Profitability. The second is to learn about the profitability of your Products. Both are invaluable.

Most of the goals associated with performing profitability analysis are related to customer based profitability. Sometimes this is also referred to at seminars or in the trade magazines as relationship or household profitability. All of these phrases mean effectively the same thing… and all lead to the same basic question; which customer relationships bring your institution profit and which do not? And remember, getting the profitability results is not the end all, it is only the beginning. Ultimately the goals are as follows:

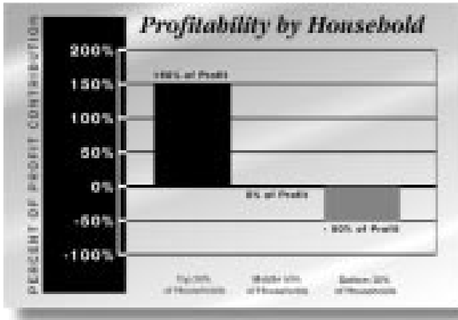
1. *To retain high profit Relationships. (Top 20% of customers bring 150% of profits)*
2. *To "profile" good customers so that you can find other customers who look like them.*
3. *To "profile" prospective customers, directing your emphasis on finding high potential prospects.*
4. *To recognize which customers are at risk – because they have a maturing account or only one.*
5. *To create direct Marketing Campaigns that have the highest profit potential opportunities available.*
6. *To learn which relationships are not profitable, and then direct a thoughtful strategy to make them more profitable. (Bottom 30-50% of Customers produce negative 50% of profits).*
7. *To understand geographically where your different kinds of customers live, so as to better find quality "profiles."*

…and many more worthwhile goals and opportunities.

Many of you probably heard about a situation in Chicago a few years ago. A large retail financial institution started charging customers to come in and use the tellers. If you recall, it created quite a stir and a great deal of bad press for the institution. There is a wonderful lesson to be learned by the risk this one institution took. Let's review it.

Here is the other side of the story.

As we discussed earlier, the First Manhattan Consulting Group puts forth a study that says that 150 percent of a financial institution's profits come from just 20 percent of its customers. They also found that 30-50 percent of customers are responsible for being unprofitable — to the tune of negative 50 percent. After evaluating who was unprofitable and then profiling these customers, the financial institution determined that it was the unprofitable clients who used and abused the time they spent with the tellers (refer to goal #6 above). After evaluating the data further, this institution began to charge for teller use. Why would they do this?



Two reasons. First, if a client paid to continue to use the tellers, that additional fee income would go a long way in helping to make that customer less unprofitable (or even marginally profitable). Secondly, many of these unprofitable customers simply close their accounts and move on to another institution, taking their unprofitable relationship with them. In both cases the bottom line of the institution would and did increase.

While this strategy seemed to work for a very large institution in a very large metropolitan area (with a sizeable prospect pool that they could turn to for replacement customers), it would not be effective for most smaller communities – nor should it generally be encouraged. However, the point is easily made. Understand the profitability information and then take action to improve your bottom line.

Understand the profitability information and then take action to improve your bottom line.

PRODUCT *profitability*

To many, products and their respective prices drive everything in financial institutions. This can be especially true when competition is such that you need to be responsive and competitive. Price driven product marketing can create some interesting challenges. One of them is when you begin to sell products that are not profitable in the name of being competitive.

There are two sides to product profitability. The cost side, and the revenue side. Most financial institutions have similar costs. How each chooses to approach the revenue side may differ however.

HOW TO APPLY THE LESSONS OF *Retailing?*

Imagine that you are a mega-retailer, like Walmart. You buy merchandise at a wholesale cost, and then mark it up (albeit modestly) and sell the merchandise at a retail price. Simple and obvious enough, right? Does Walmart sell stuff below their cost? Sometimes. Yet even though they sometimes sell products at or below cost, Walmart does so knowing with almost complete certainty, that their customer will buy more than just that one unprofitable product. And because that customer goes through the store with a shopping cart, each and every additional product they buy averages up the profitability of the entire transaction.

Walmart knows that even though they may advertise and get people to buy a marginally profitable product, they will also get the customer to buy other profitable items in the same transaction. Walmart can get away with this. A financial institution has a much harder time working this plan.

To underscore the point, when was the last time a customer came through your institution and filled up his or her cart with a half dozen products and services? Is

never a fair answer? Fundamentally understanding Product Profitability… your product costs vs. revenue… is imperative in achieving your institution's profitability goals. As you review your products and their respective profitability contribution, you need to further review the underlying account types that make up the overall product class (for example: low balance – high transaction checking accounts vs. high balance, low transaction style checking accounts.)

RE-PRICING *Products*

Unlike Walmart, financial institutions don't have the luxury of averaging down a loss from one unprofitable "loss leader" among a dozen other products and services. That means that each of your products must stand-alone in delivering profit to your bottom-line.

What if you were able to evaluate each product, or even better yet, each specific account type (like your basic checking account), and determine its specific bottom line contribution? Are you likely to have certain account types that are unprofitable? You bet. Are some likely to be huge contributors of profit? Yes. Now what? You may need to re-price some of your products to a point where the unprofitable ones at least break-even. As you review this information, you will want to know what impact the balance of these accounts has on profitability, when determining the re-pricing.

Unfortunately, most institutions only adjust their product pricing when the marketplace forces them to. In other words, if the competition cuts rates, you need to follow. Re-Pricing in this way is reactive. And, most of the time when institutions react and meet a competitors price, it is based solely on satisfying the need for sales, completely ignoring the profit implications.

There are a number of interesting questions that must be addressed when evaluating a price change. Each of the following questions can only be answered by you; based on the context of your marketplace, the niche you command in that marketplace, competitive pressures, and risk.

EFFECTIVE *Re-Pricing* QUESTIONS

Our example will focus on a basic checking account, part of the overall Product Group – Deposit Products.

1. *What percentage of your overall accounts (and Household relationships) have this account?*
2. *What is the profit/loss value of these accounts (and Household relationships)?*
3. *What is the existing pricing structure for this account type?*
4. *What is the existing cost base for this type of account?*
5. *How are the other account types within the Product Group priced?*
6. *If the loss generated by this account type is substantial, do you want to break-even or make money in a single price change, or stair step a price increase over time?*
7. *How is your competition priced for a similar account?*
8. *Is the price increase for this basic checking account type best served by an adjustment to interest rate, fees, or costs? (Hint: in most cases, a fee increase is the fastest way to make a basic checking account more profitable.)*
9. *What risk do you feel exists if you raise/lower the fees/rates…? In other words, how many accounts and household relationships might leave if you take this action? Can you insulate good customers from these changes?*
10. *Is the risk of the price increase on this account type, worth it? Take the number of "at risk" clients from question #9, and subtract that potential loss against the revenue you expect to gain from the fee income increase. (Remember, as this account type is a negative contributor to profit, losing a few of these unprofitable accounts may actually improve profit.)*
11. *If the facts and market conditions warrant you to re-price the product, do so. Communicate the change to your clients.*

Accompanied by effective dialogue about Product Re-Pricing with your Sr. Management, you should be able to impact your institution's bottom line without selling one additional account. Simply adjusting the losers into a breakeven proposition will have a significant and positive impact on profit. Amazing isn't it.

Yet, without knowing what Products are or are not profitable, this Marketing technique is unavailable to you.

Direct Mail Campaigns can be dramatically influenced by your profitability results at both the Customer and Product levels. Ultimately, your goal with Direct Mail should be to prioritize your campaigns, placing preferential treatment on those projects that can deliver the most profit the fastest.

PROFITABILITY AND DIRECT *mail*

Earlier we discussed that finding out which Customers and Products are or aren't profitable is just the beginning. Managing Direct Mail Marketing Campaigns is just one of the ways whereby you can DO SOMETHING with this information to impact profitability.

Central to effective Direct Mail is understanding its inherent formula of success.

70 percent of Success	=	Finely Targeted List (who gets the Direct Mail Letter)
20 percent of Success	=	The Offering (great product, price, or new solution,...)
<u>10 percent of Success</u>	=	The Creative (envelope, letter,...)

100 percent Success with Direct Mail!

If you focus your attention on following this formula, you will be successful with Direct Mail. Just remember, produce the campaigns that you believe will have the most positive impact on your bottom line first.

(A.K.A. DOING SOMETHING WITH IT!)

The power of offering the right product, at the right time, to the right customer is the pinnacle of marketing and sales. This is only possible with effective Profitability. Even with good Profitability, is it a fair and real life goal that this information should be shared with the front line staff within your institution? Yes and no.

Actual profitability results are kind of meaningless to those who haven't been trained to evaluate such things. What is valuable though, is interpreting this information for your front line staff and then providing them with actionable information. Sounds great, but what does this really mean?

Today, more and more financial institutions are empowering their customer focused staff to be able to make decisions on the fly. Given good Customer and Product profitability information, Marketing and Sr. Management can make educated decisions about your existing customer relationships. Information like – should you waive fees for this customer, what deposit bonus or loan discount might you grant this customer if they wanted an additional product, and what is this customer's next probable product purchase, are all things that your front line staff could use to more effectively make sales decisions and presentations. And with this information at their fingertips, everyone from the tellers, to Customer Service Reps (CSR) to Customer Service Managers (CSM), to Branch lending personnel, including Branch Managers can present the right product to the right customer at the right time – now! No more searching the Customer Information File (CIF) for unconnected data.

Software tools are available that provide this benefit in an enterprise-wide fashion within your institution. Imagine providing this decision making information to your front line staff. Effective profitability information makes it possible.

Getting what you want means giving your Sr. Management what they want – results… a better bottom line, measurable marketing, reduced risk, customer retention, and an increase in the number of relationships that are highly profitable. You can do it! In fact, you need to do it, to keep pace with your competitors.

GETTING WHAT YOU *want*

For those of us who don't know who our profitable customers are today (75%), this is more than a daunting task – it may be impossible, without the right tools. Paramount to getting what you want lies in your taking the steps you need to understand the profitability of your institution's Customers and Products.

Isn't it time you knew? Say yes.

PROFITABILITY:

SOMETHING TO *think about*

WHAT IMPACT DOES A PRICE INCREASE/CUT (IMPACT ON PROFITABILITY) HAVE ON SALES?

Assuming an anticipated profit of 25% on a selling price, a 2% cut in that selling price means that you must increase your volume of sales by 8.7% to make the same profit obtained before the price was lowered.

A 3% cut means a 13.6% increase in sales is necessary.

A 5% cut means a 25% increase in sales is necessary.

A 7.5% cut means a 42.8% increase in sales is necessary.

A 10% cut means a 67% increase in sales is necessary.

A 15% cut means a 150% increase in sales is necessary.

A 20% cut means a 400% increase in sales is necessary.

Or, reverse the process and increase prices.

A 3% increase means the same profit on 90% of sales volume.

A 5% increase means the same profit on 83.5% of sales volume.

A 7.5 increase means the same profit on 77% of sales volume.

A 10% increase means the same profit on 71.5% of sales volume.

A 15% increase means the same profit on 62.5% of sales volume.

A 20% increase means the same profit on 55.5% of sales volume.

Think about it.

RELATED PROFITABILITY & MARKETING ARTICLES

Credit Union Journal:"Why CUs Can't Afford to Treat All Members the Same Way" – March 3, 1999

Bank Technology News - Retail Delivery Newsletter:"Increase Profitability with Customer Relationship Management" – January, 1999

Credit Union Times:"Profitability: What You Don't Know Will Hurt You" – December 12, 1998

Bank Marketing:"A Community (Bank) of Households" – December 6, 1998

Credit Union Manager Newsletter:"One to One Marketing for Customer Retention" – August 1997

Credit Union Executive:"MCIF: Marrying Training and Technology – August 1997

Credit Union Manager:"MCIF: The Golden Egg?" – May 1997

GREAT WEB-SITES

www.frbfca.org

www.marquismcif.com

www.ips-sendero.com

www.acbpartners.org

RESOURCES FOR PROFITABILITY AND FOR ENABLING PROFITABILITY INFORMATION

The Centrax Group 800-365-4274	Dallas, TX Jay Kassing
IPS-Sendero 800-879-1996	Atlanta, GA Dave Ulrich
McCuistion & Associates 972-255-2599	Dallas, TX Dennis & Niki McCuistion
LemmonTree Consulting 602-967-5778	Phoenix, AZ Nicolette Lemmon
DataSearch Systems, Inc. 615-859-2295	Goodlettsville, TN Charles Moffitt
Strategic Direct Marketing, Inc. 800-843-8861	Nashville, TN Randall Putala
SERtechnology 972-980-5405	Dallas, TX Mike Rizer
U.S. Postal Service 336-855-4429	Greensboro, NC Gene Hairston