



**Dear Readers,**

I have a lot of questions for you in this issue: Is your organization aligned? Are you building enough customer equity? And, what the heck happened??

That last question is for the now-defunct organizations that were hailed 25 years ago as shining examples of America's best-run companies in the business classic *In Search of Excellence*.

But, don't worry. We won't let that happen to you because we also have answers: three steps to achieving an aligned organization, a free customer equity metric from Peppers and Rogers, and, as for that last question...I'll let performance management guru Gary Cokins tackle that one.

Enjoy – and thanks for reading!

A handwritten signature in black ink that reads 'Anne-Lindsay Beall'.

Anne-Lindsay Beall  
Editor, *SAS Business Report*

## **Three Steps to an Aligned Organization**

Alignment: It's one of the primary goals of performance management initiatives, but it's also the least realized. This white paper reveals why alignment is so elusive – and the three steps to achieving it.

**Register to download at:**

<http://www.sas.com/ctx/whitepapers/whitepapers.jsp?code=385>

## 1-TO-1 IMPACT: Are You a Value Creator Or a Value Destroyer?

Use metrics to evaluate your customer base

By Don Peppers and Martha Rogers, PhD.

Clients often ask us about the key strategic insights a company should take from our Return on Customers<sup>sm</sup> (ROC) metric. We devised a metric that a company can apply at the individual customer level, or against particular customer groups or segments, or against a company's entire customer base. At the enterprise level – when you are considering how your whole customer base is creating value for your business – what does ROC really tell you?

Probably the most important question you can answer by looking at your firm's ROC is whether your income and growth level can be sustained in the future. It takes customers to create value, and you need to know whether your customers (both current and future customers) are capable of creating enough value to fuel whatever financial growth ambitions you have. In short, are you building enough customer equity to sustain your financial plans?

Just because you make a profit today does not mean that you'll make a profit tomorrow. To illustrate what we mean, we devised a chart showing five hypothetical companies. These companies are all in different situations with respect to both the level of customer equity they are sustaining and their profit levels. We have categorized them as "Value Creators," "Value Harvesters" and "Value Destroyers."

Customer metrics for five companies

	Company 1	Company 2	Company 3	Company 4	Company 5
Beginning customer equity	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Ending customer equity	\$1,200	\$1,200	\$975	\$950	\$900
Change in customer equity	\$200	\$200	(\$25)	(\$50)	(\$100)
Profit during the period	\$50	(\$50)	\$50	\$50	\$50
Return on customer	25%	15%	2.5%	0	5%
	Value Creator	Value Creator	Value Harvester	Value Harvester	Value Destroyer

Each of these companies starts the year with a baseline customer equity of \$1,000. Customer equity is basically the net value of all future cash flows a firm expects customers to generate. Think of it as the sum total of all the lifetime values of all of a company's current and future customers.

Companies 1 and 2 end the year with an increase in customer equity, while the other companies suffer some loss of customer equity. When you factor in the differing profits of these five companies, we can calculate ROC for each one, and it ranges from 25 percent (Company 1) all the way down to -5 percent (Company 5).

### Beyond shareholder return

At the enterprise level, ROC is the same number as Total Shareholder Return. This is because customer equity is virtually equal to the discounted-cash-flow value of a business; so when you add the profit taken during a period to the change in value of the underlying customer equity, what you get is the overall value created by the firm. So, at a minimum, your ROC has to be higher than your cost of capital – or you aren't creating any value at all.

Companies 1 and 2 are "Value Creators" because the ROC for each company is comfortably higher than either company's cost of capital. It's important to note that each of these companies could report the same level of profit the next year and still have a company that was more valuable than it was before. In other words, these companies have a profit that is sustainable.

Companies 3 and 4 are what we call “Value Harvesters” because, while each one’s ROC is non-negative, neither one has an ROC higher than its cost of capital. Essentially, these companies are eating their own customer bases and reporting the meal as a profit for shareholders. This can happen when a firm “harvests” business from the customer base. It is part of a normal business life cycle but is not a practice that companies can overuse.

For example, a bank may put a full-court press on its mortgage department in order to drive business. A car dealer may opt for zero percent financing to clear inventory. This will take some customers out of the market. Therefore, while it may increase revenue, it damages the value of the customer base over time. Any company that continues to harvest value from the customer base in this manner will eventually run out of customer equity. Like a farmer burning out his land by overplanting, sooner or later a “Value Harvester” will find that the customer base can no longer support the harvest being taken from it.

Company 5 is what we would call a “Value Destroyer.” This is a company that has reported a profit to its shareholders, but it did so at an enormous cost in customer equity. In fact, the reduction in customer equity actually exceeded the profit reported, which means that the company actually destroyed value. It didn’t just convert customer equity to profit; it spent more in customer equity than it earned in current profit.

By starting with the future-focused metric of customer equity, ROC demands that companies look long term at value creation. Factoring in changes in that equity along with profit, it is an effective view of whether a company’s activities are creating, harvesting or destroying the value of its customer base. That customer base is just as valuable to you as land is to a farmer. How a company works its land makes all the difference.

## **Invulnerable Today but Aimless Tomorrow**

Almost half of the companies that passed the rigorous tests to be listed in the once-famous book [\*In Search of Excellence\*](#) no longer exist, are in bankruptcy or have performed poorly. What happened in the 25 years since the book was published? And how can you keep the same thing from happening to your organization? Find out by visiting the new blog by performance management expert Gary Cokins.

**Available online only at:**

<http://blogs.sas.com/cokins/index.php?/archives/15-Invulnerable-Today-but-Aimless-Tomorrow.html>

## **Are You Realizing the Full Potential of Today's Business Intelligence?**

A recent survey of 175 BI professionals revealed some surprising trends in the use of business information and the resulting effect on organizational performance. This report explains why most organizations aren't realizing the full potential of BI – and what successful organizations are doing differently.

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## Dialing Up Customer Loyalty

EarthLink is keeping customers, increasing product adoption and reaping US\$50 million more in total value with help from SAS®. Now, the company is better able to identify customers who might be thinking of leaving so it can create tailored marketing messages and the right product offers that convince customers to stay “Linked.”

EarthLink has capitalized on the mantra that it’s cheaper to keep existing customers than acquire new ones. So when it began the evolution from a traditional ISP to a total communications company, it wanted to make sure that it kept its existing base of customers engaged.

The team responsible for reducing churn (that is, voluntary service disconnects) and increasing product adoption needed to model customer engagement based on a combination of customer attributes and usage of different products – both free and revenue-generating ones. “Some products are more closely tied to customer retention than others. To effectively manage churn and keep customer engagement high, we needed holistic insight into what the strongest levers are,” says Sam McPhaul, Senior Manager of Business Intelligence. “Beyond descriptive reporting on who uses what, we needed a way to model usage patterns in order to design optimal marketing programs.”

Prior to using SAS Enterprise Miner™, it was a challenge to associate customer attributes and product usage with subsequent churn. The company employed descriptive analytics to track monthly service disconnects, as well as traditional baseline reporting that described what had already happened – but EarthLink lacked a holistic, real-time depth of intelligence into who its customers were, what they were using and what programs the company could craft to encourage desired customer behaviors.

Despite the complexity of the problem, the team knew it was solvable. To put real science around the challenge, the group turned to SAS Enterprise Miner. “Our primary reason for choosing SAS was the depth of customer insight it would help us uncover from a robust variety of different types of analysis. Our ability to test different methods has given us better answers about what drives customer churn. That’s the real ‘Holy Grail’ in BI,” says McPhaul.

### High-speed results

Within five weeks of implementing SAS Enterprise Miner, team members saw measurable results. They were able to examine linear and nonlinear models of several different groups of customers within different usage scenarios, which gave them a high level of customer insight in a very short period of time. “We started to look at this data from multiple dimensions, report on it and really drive down into root cause for churn. With the analytics SAS has enabled us to perform, we’ve been able to rapidly identify which products are most retentive to different customer segments. That’s very important – and it’s something that was difficult to achieve in the past,” says Stuart Roesel, Director of Customer Loyalty and Retention.

Today, EarthLink has a better idea of which customers might leave in the near term and is better able to target those customers with the right offers to keep them “Linked.” Additionally, the success of the modeling efforts has been easy to promote within the company because the results speak for themselves: Loyalty and retention campaign response rates have skyrocketed from 5 percent to 20 percent, and the company has achieved an ROI of 268 percent.

“Not only do we have real depth and dimensionality to our analyses, but we can present it to management in a way they can easily interpret, communicate to other stakeholders and act on quickly. That’s a serious competitive advantage,” says McPhaul.

Roesel adds, “There’s a lot of excitement across the organization about the initial models and road maps we’ve created, from product managers all the way up to executives. When you have VPs talking about our ability now to predict churn with high accuracy, that’s powerful.” Other teams across EarthLink have even approached the team to see how SAS might be able to improve their own results.

### **The SAS® advantage**

“We’ve leveraged every possible aspect of SAS in a very short time. Especially useful for us has been the complete modeling platform where we can automate data cleansing, test different transformations on many evolving models, and quickly create and evaluate different types of models. SAS gives us a power to automate many complex tasks that I just haven’t experienced from other tools. Others may be good at one thing, but not good at everything that we need simultaneously,” says McPhaul.

Roesel agrees. “SAS provides us with a variety of options to help us develop real-time analytics and see what the drivers truly are, and proactively deliver messages to customers,” he explains.

What’s on the horizon for EarthLink? The company is currently on track to move from an all-time high churn rate in 2005 for its dial-up customers to an all-time low by the beginning of 2008 – a 19 percent reduction in churn that has added an incremental value of \$50 million. “It’s an incredible story. Prior to bringing in SAS, everything was a one-size-fits-all approach to customer knowledge. We’ve been able to take a much more segmented approach, which has translated into significant cost savings as well as reduced churn,” says Roesel.

While EarthLink is reducing churn, it is also helping customers feel more connected to its products through targeted messages about usage, product features and pricing options, giving EarthLink confidence that customer loyalty and product adoption will continue to grow.

## SAS Leader in Credit Risk Management Software

Chartis Research report highlights SAS® Credit Risk Management strengths

Chartis Research has positioned SAS as an established leader for credit risk in "[Credit Risk Management Systems 2007](#)." According to the report, [SAS® Credit Risk Management for Banking](#) is a key player in the areas of functionality, flexible technology architecture, and scalable sales and marketing strategy, emphasizing SAS' strength in data management, flexible analytics, global presence, business intelligence, and financial stability and size.

The Chartis report, which updates the company's 2006 "Credit Risk Management Systems – Basel II and Beyond," predicts a major surge toward integrated credit risk management in 2008, peaking in 2010-2011. The report covers key market and regulatory requirements, implementation challenges and the competitive landscape. According to Chartis, established leaders such as SAS have capitalized on Basel II, upgrading or extending their offerings to related areas and sustaining growth by leveraging their customer bases to move beyond Basel II.

"This comprehensive research leads Chartis to conclude that SAS Credit Risk for Banking is amongst the strongest offerings available in the retail banking sector. This is due to a flexible technology architecture, flexible analytics, global presence and support," said Helen Townsley, research director at Chartis Research. "Chartis considers SAS to be an established leader in the credit risk enterprise software market."

"Being recognized by Chartis as an established leader for credit risk management further underscores SAS' goal of empowering organizations to not only meet Basel II requirements but simultaneously achieve enterprise risk management and superior performance management," said David Rogers, SAS' Global Product Marketing Manager for Risk.

SAS Credit Risk Management for Banking, which integrates data aggregation, analytics and reporting within a transparent framework, provides an open, extensible environment with complete capabilities for retail credit scoring, corporate credit rating and credit portfolio risk management. The solution is transparent and auditable, facilitating supervisory review, both internally and by regulators, as required by Basel II and other regulations. The underlying credit risk data model helps firms consolidate credit data from disparate sources and supports faster implementation.

Chartis Research recently ranked SAS as the leader for the third consecutive year in its "[Operational Risk Management Systems 2007](#)" report.

More than 200 financial services institutions use SAS for credit risk and operational risk management, including: Bankdata (Denmark), BB&T (USA), Caisse Nationale des Caisses d'Epargne (France), Commerzbank (Germany), Grupo Santander (Spain), HSBC (UK), HypoVereinsbank (Germany), Kookmin Bank (Korea), Landsbanki (Iceland), Northern Rock (UK), Raiffeisen Zentralbank (Austria), Volkskreditbank AG (Austria), Vseobecna Uverova Banka (Slovakia) and Woori Bank (Korea).

## **Events:**

### **M2007: Data Mining Conference**

**Oct. 1-2, Las Vegas**

Meet the world's foremost data mining experts, and learn best practices, new techniques and the latest trends at M2007.

<http://www.sas.com/events/dmconf/index.html>

### **TDWI World Conference Summer 2007**

Stop by the SAS booth to see how SAS Business Intelligence gives you the information you need, when you need it.

<http://www.sas.com/events/ustradeshows/addinfo.html#dwisummer07>

### **On-Demand Webcast: SAS® Add-In for Microsoft Office**

Tune in to this on-demand Webcast from *DM Review* to learn a quick and easy way to leverage the power of SAS Analytics, reporting and data using the tools on your desktop.

<http://www.dmreview.com/web/archive/07/033007sas/playback.cfm?sourcecode=attend>