

Business Intelligence: Critical Capability to become a Knowledge-Driven Client-Centric Organization

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Agenda

- Why the Need for Business Intelligence
- Benefits of Business Intelligence
- Business Intelligence: Initial CRM Focus
- BI Informational Infrastructure
- BI Critical Capabilities
 - Data Mining/Business Intelligence
 - Predictive Model Development
 - Campaign Management
 - Client Profitability/LifeTime Value
 - Web-Based Reporting (Pervasive BI)
 - Performance Measurement
- Vendor Selection
- Customer Segmentation
- Organizational Alignment to Support CRM

Why the Need for Business Intelligence (BI)

A recent survey by global technology consulting firm Accenture highlights a growing discontentment among senior US executives with their business intelligence initiatives and could preclude a new wave of investment in 2005.

Over 90% of the 150 senior executives surveyed across Fortune 1000 firms believe they need to significantly strengthen their analytic and BI capabilities in order to drive business growth in the coming year.

February 2005

BusinessWeek survey (675 US and European Executives and Business Managers polled), The Disconnect Between Data & Decisions:

- "54% of business users find it difficult to access the corporate information they need"
- 16% of respondents said 75% of the time decisions were made on "Gut Feel"
- 42% of respondents said 50% of the time decisions were made on "Gut Feel"
- "Gut Feel" used by 60% of the people, greater than 50% of the time.
- 77% of executives were aware of bad decisions managers have made due to insufficient information
- 41% of respondents thought Information available for important business decisions was "usually too little"

BI Market Commentary

BI market is estimated to reach \$7.5 Billion by 2006;

- IDC, "Information Access Tools Market Forecast and Analysis Summary"

"BI can enhance and extend an enterprise's business applications, resulting in a better-managed enterprises"

- Gartner, "BI Competency Center is Core to BI Success"

"A strategic approach to BI can pay handsome dividends to enterprises that exploit it properly"

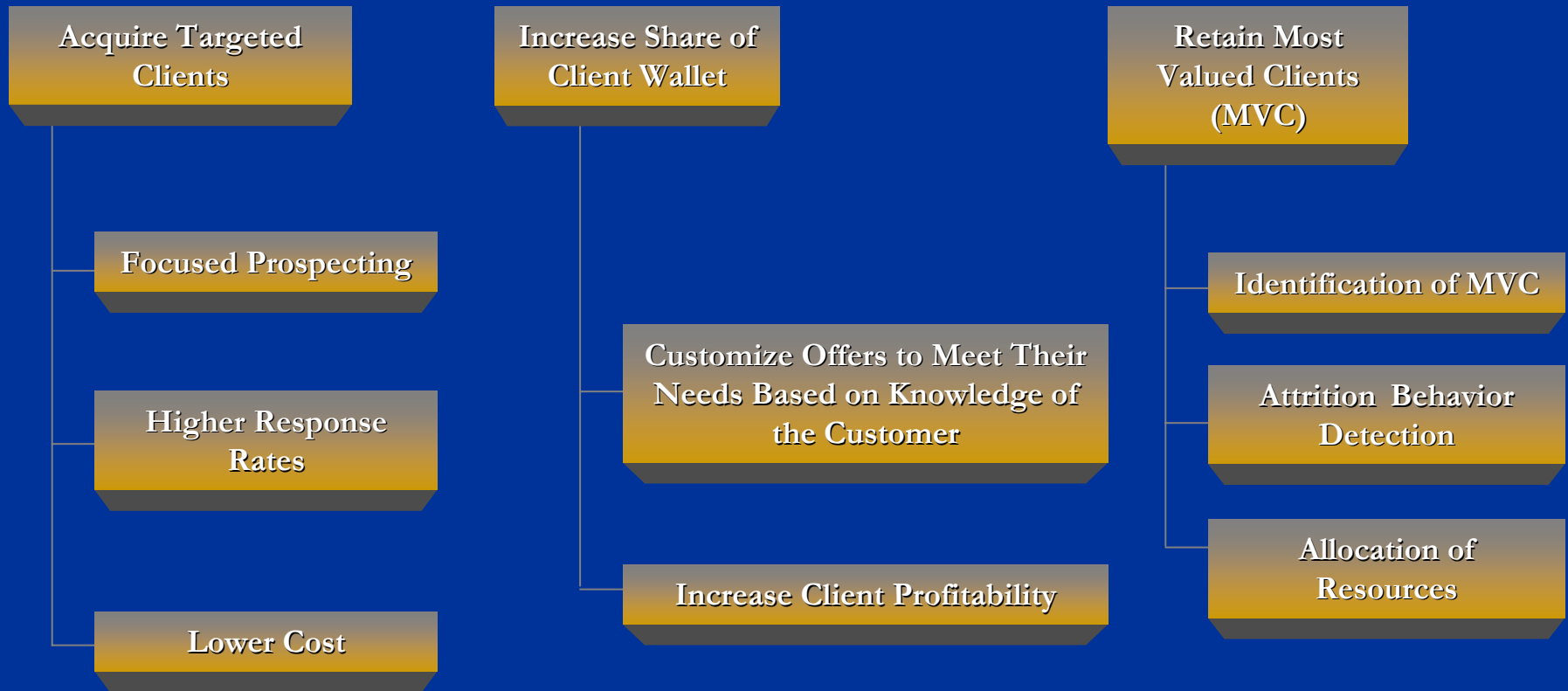
- Gartner, Client Issues for Business Intelligence

According to an IDC study, the average return on a BI investment was greater than 430%

"BI must be subjected to the same standardization process used for other technologies widely deployed throughout the organization (e.g. productivity tools, workgroup databases, corporate databases, web servers, browsers"

- META Group, Business Intelligence Tools

Business Intelligence: Benefits



Business Intelligence: Challenges Remain

“Promises of improved profits, streamlined business processes, big-spender customers and untold fame, wealth and the adoration of peers no longer seems to convince executives to spend money on IT.”

“Even in areas such as business intelligence, the main obstacle to overcome is cynicism from executives who, while being willing to pay for what they perceive BI can deliver, have no faith that vendors and their IT departments can deliver.”

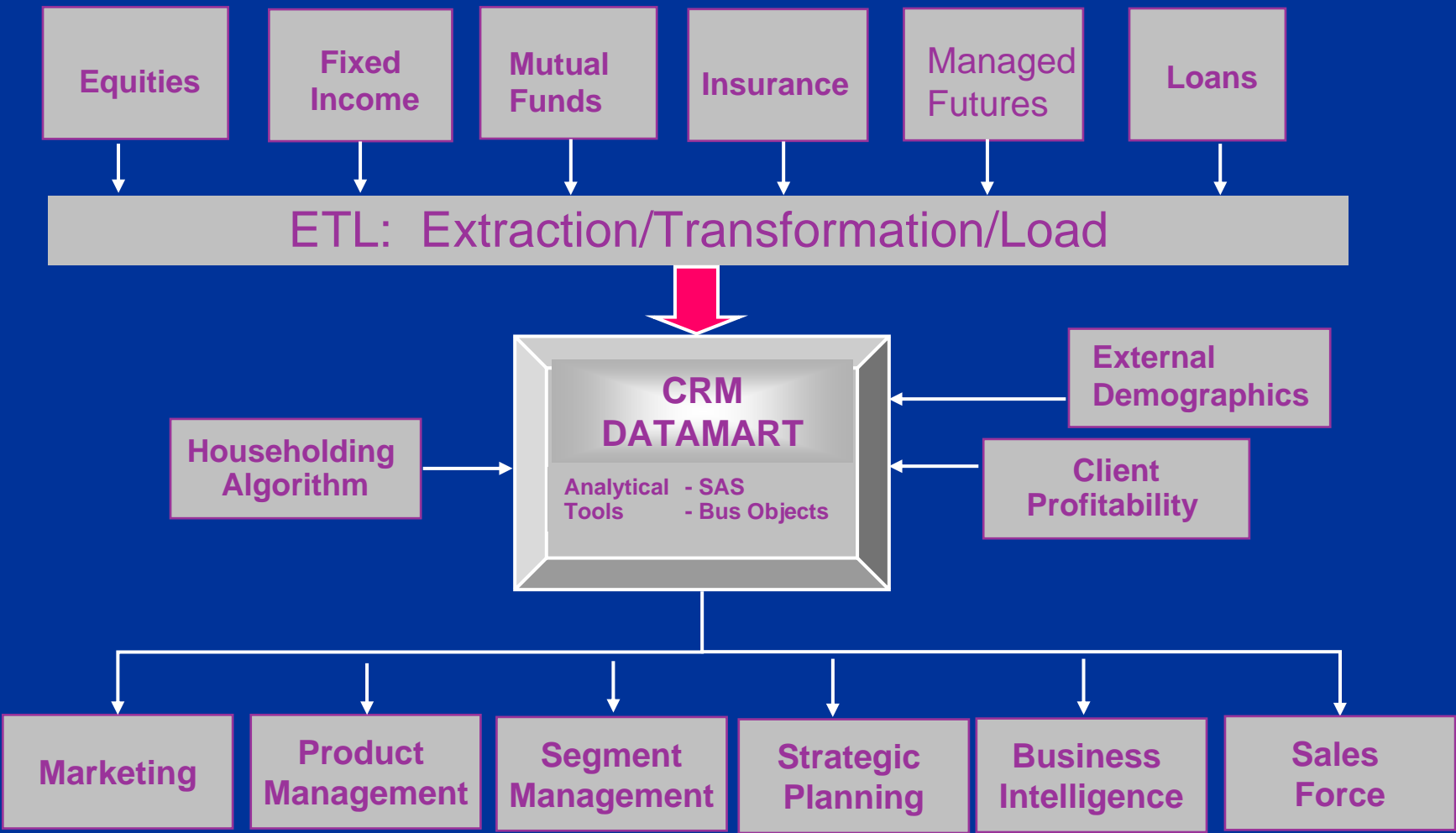


Source: eStrategy, March 2005

BI Should be the Initial CRM Focus

- Analytical CRM before Operational CRM
- Determine Data needed to support the key initiatives:
 - Acquisition of Targeted Clients
 - Increase share of Client Wallet
 - Retain our Most Valued Clients (MVC's)
- Identify “Information Gap”
- Identify “Capabilities Gap”
- Develop BI Data Mart
- Recruit Staff
- Vendor Review/Selection
- Implementation

Business Intelligence: Information Infrastructure



Business Intelligence: Capabilities

- **Capabilities identified as critical to success:**
 - Data Mining
 - Predictive Model Development
 - BI Analytics
 - Client Profitability/LifeTime Value
 - Campaign Management
 - Intranet-Based Reporting
 - Performance Measurement

Data Mining

- What is Data Mining?

“Data Mining is the process of analyzing detailed data and extracting and presenting actionable, implicit, and novel information to solve a business problem.”

Source: Ronald S. Swift

- Data Mining Uses:

- Target Marketing
- Customer Retention
- Market Basket Analysis
- Product Acquisition Sequence



Data Mining should become an integral and ongoing component of business processes with dramatic revenue/cost impact.

Data Mining/BI Analytics

12-Month Activity by Household Status and Asset Tier

		Number of New Accounts	%	
	New HH	64,818	56%	
	Existing HH	50,306	44%	
	Total	115,124	100%	
	HH Asset Group	Number of New Accounts	%	# of HH's
	Less than \$25 K	14,822	29.5%	1,416,884
	\$25K-\$100K	11,702	23.3%	593,429
	\$100K-\$1MM	20,646	41.0%	620,294
	\$1MM+	3,136	6.2%	72,116

(For illustrative purposes only)

Predictive Model Development: Critical for Campaign Audience Selection

Targeting High Propensity Households Using Rollover Model

IRA Rollover Propensity Deciles						
	IRA Rollover Propensity Decile	# of Household	# of IRA Rollovers	Rollover Rate	Percent of Total Rollovers	
Best ↓ ↑ Worst	0	124,915	357	0.3%	1.2%	
	1	124,916	814	0.7%	2.8%	
	2	124,916	1,484	1.2%	5.1%	
	3	124,915	1,825	1.5%	6.3%	
	4	124,916	1,965	1.6%	6.7%	
	5	124,916	2,249	1.8%	7.7%	
	6	124,915	2,581	2.1%	8.9%	70% Rollover Activities
	7	124,916	3,150	2.5%	10.8%	
	8	124,916	5,046	4.0%	17.3%	
	9	124,915	9,658	7.7%	33.2%	
	ALL	1,249,156	29,129	2.3%	0.0%	

(For illustrative purposes only)

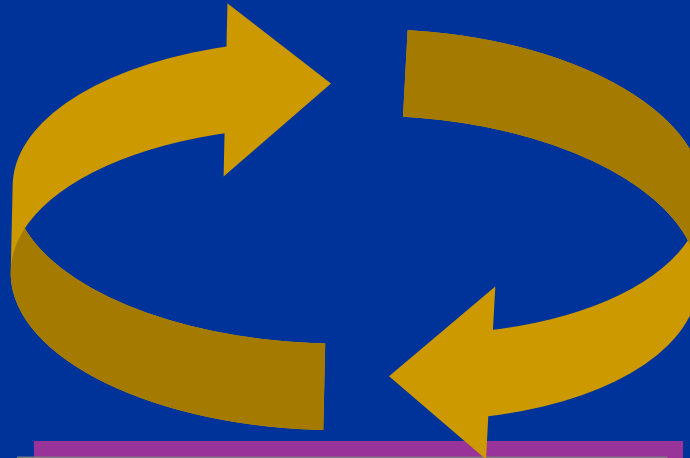
Campaign Management Create a Closed Loop Marketing Process to Accelerate Organizational Learning

(Campaigns become smarter)

Campaign Results Tracked Overtime

- Responders
- Non-responders
- Activation Rates
- Channels Utilized
- Assets Generated
- ROI
- Profitable Clients

Campaign Concept Developed



Data Mining Performed/
Predictive Models Developed

Targeted Prospect Lists
Generated

Campaign is Executed

- Right Message
- Right Customer
- Right Time
- Right Channel

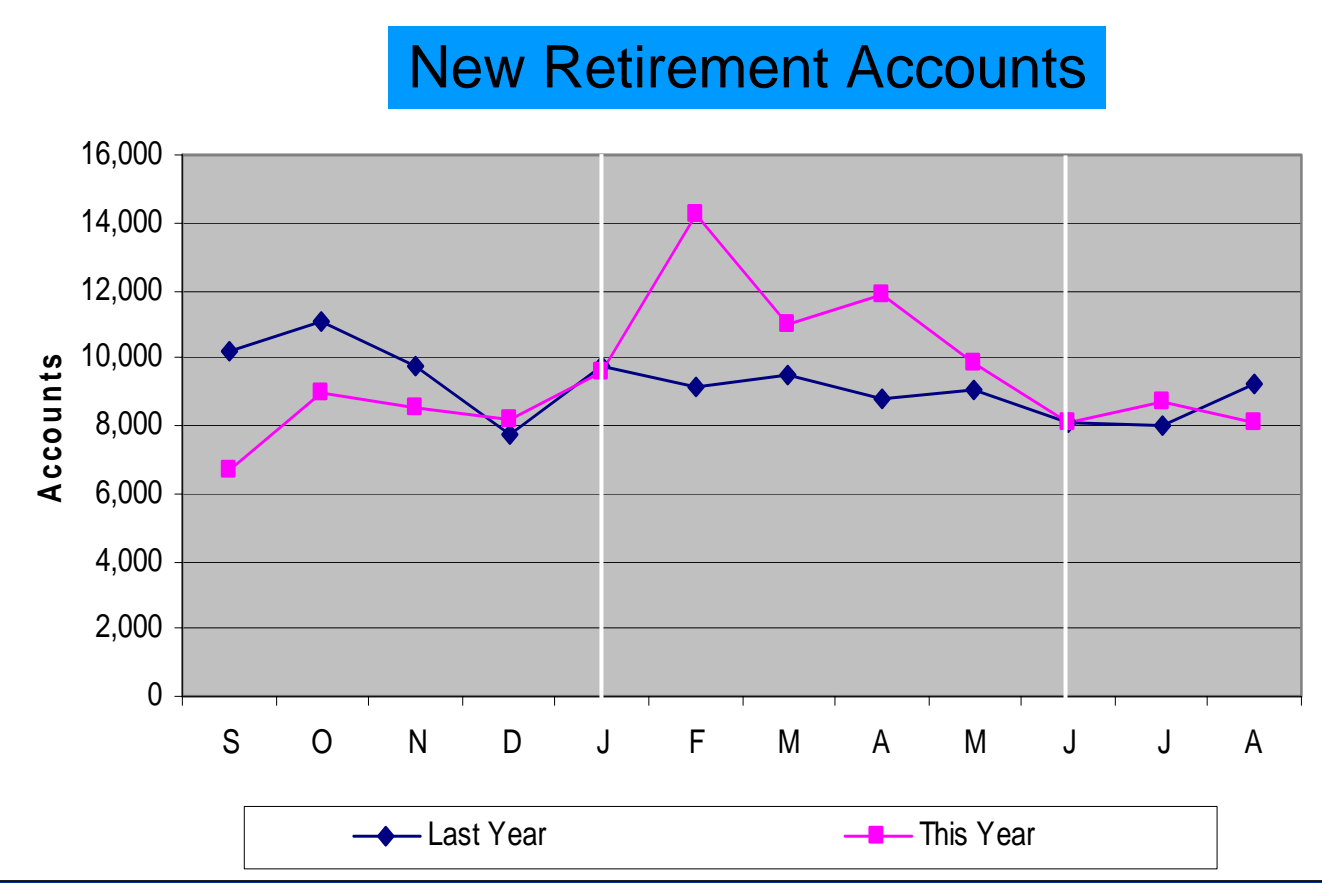
Mailing Address
File

Opt-Out Client
File

Employee File

Campaign Management: Delivering Results

40% Increase in Account Openings and 250% ROI

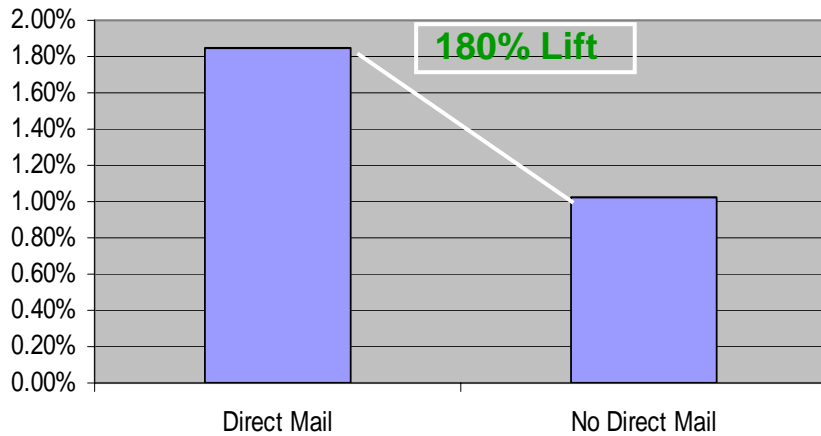


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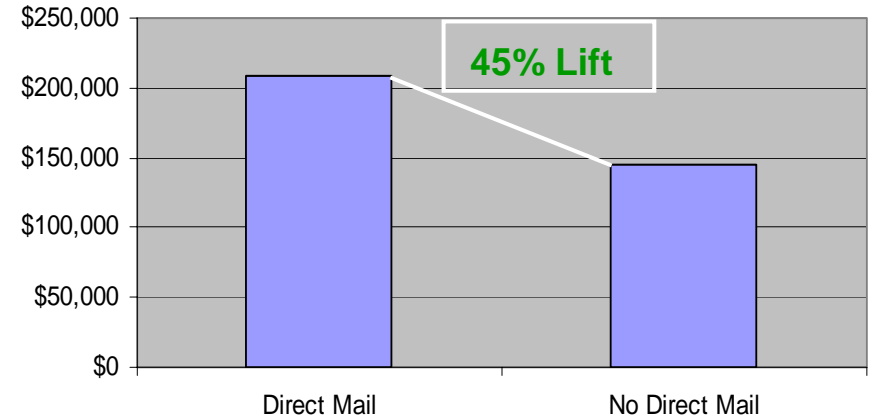
Campaign Management: Delivering Results

Managed Account Campaign

Overall Conversion Rate



Net New Assets per Relationship



• 4 Year ROI Payback of 800%

(For illustrative purposes only)

Customer Profitability/LTV Calculations

- CRM initiatives will fail without the ability to understand the current and future value of customers

“It is the information we use to run the business” — Former Vice Chairman, Chase Manhattan

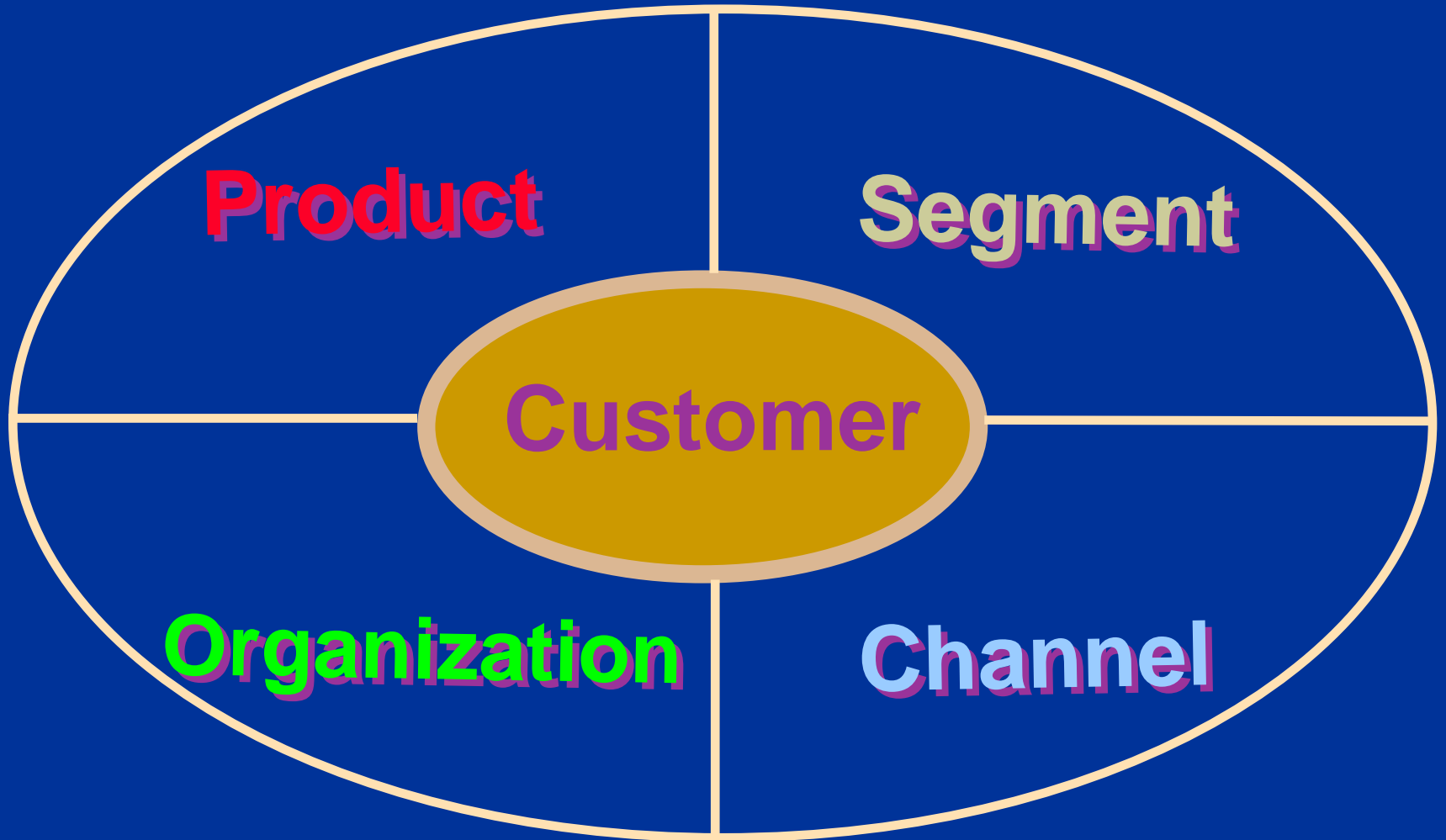
“According to this study of retail banking, 140 to 170% of profits can come from 20% of customers while 80% of losses can be attributed to only 20% of customers” - P. Middleton, “Customer Centric Management,” FS2020 (KPMG International), Fall 2000

“Board of Directors will soon begin to demand customer profitability data from companies; investors will demand that companies report it.” - Professor Larry Selden, Columbia University Business School (Fortune 9-30-02)

Customer Profitability

- Customer Profitability reporting determines the current and future value of each customer.
- This enables the individual application of the appropriate level of service and offerings commensurate with the customer's value.

Customer Profitability: Multiple Dimensions of Profitability



Customer Profitability: Cost Allocation Methodology

- Activity based costing with fully-loaded and marginal expenses

BRANCH	ACH	ATM/POS	PHONE	OTHER
Deposits	Credits	Deposits	VRU Inquiries	Items Paid
Withdrawals	Debits	Withdrawals	VRU Transfers	Statements
Cashed Checks	Wires	Inquiries	Rep-Assisted	Account Opening
Certified Checks		Transfers		Marketing
Debits/Credits		POS on-line		FDIC
Platform Inquiries		POS off-line		Corporate Overhead

Customer Profitability: Averages Can be Deceiving

Balance Tier (\$)	# Of Accounts	NEBT	Balance	Avg Bal Per Acct	Cum. \$ Avg Bal	Cum.% Acct
<0	3,091	(\$24,906)	(\$116,663)	(\$38)	N/A	N/A
0-5	25,597	(\$243,102)	\$32,924	\$1	\$1	27%
5-10	6,720	(\$64,451)	\$47,553	\$7	\$2	35%
10-20	7,492	(\$82,774)	\$104,424	\$14	\$5	43%
20-30	4,660	(\$65,243)	\$111,953	\$24	\$7	47%
30-40	2,911	(\$37,073)	\$100,655	\$35	\$8	51%
40-50	2,434	(\$30,865)	\$108,963	\$45	\$10	53%
50-100	8,074	(\$120,258)	\$579,433	\$72	\$19	62%
100-200	8,593	(\$136,450)	\$1,216,210	\$142	\$35	71%
200-300	4,822	(\$74,147)	\$1,177,612	\$244	\$49	76%
300-400	3,267	(\$49,269)	\$1,126,786	\$345	\$62	80%
400-500	2,455	(\$34,732)	\$1,097,482	\$447	\$74	82%
500-1000	6,991	(\$79,454)	\$4,926,004	\$705	\$127	90%
>1000	9,626	\$29,186	\$30,663,321	\$3,185	\$441	100%
TOTAL	93,642	(\$989,632)	\$41,239,310	\$441		

Customer Profitability: Group Sales Program

Situation:

- Program generated new consumer customers via corporate group sales
- All customers must be direct deposit
- Group Sales Program generated 30% of new relationship customers
- Group stated its customers generated \$18 million in NEBT per year (prior to introduction of the Retail Profitability System)

Customer Profitability: Group Sales Program

Reality:

- Profitability analysis showed customers **lost \$18 million** per year

- Comparison: Group Sale as % of Regular Cust.

NII	53%	Expense	106%
Fees	80%	NEBT	(425%)
Avg Bal.	48%		

- Only **50%** of customers were direct deposit

Customer Profitability: Group Sales Program

Reaction:

- Initial Hostility
- Denial
- Gradual acceptance of facts

Action Steps:

- Convert all customers to direct deposit
- Profitability analysis for each Group Sale
- Major repricing effort for over 1,000 existing Corporate Group Sales
- Repricing for all New Group Sale Offerings

Customer Profitability: Group Sales Program

Results:

- Developed close working relationship with business unit
- Effectively changed from a 'widgets' based mentality to a profit based one
- Provided critical information for business managers to do their job
- Led to a more targeted sales effort
- Balance per relationship increased by 30%
- Group achieved positive NEBT in 12 Months: \$4 MM
- In effect, a \$22 Million success story

Customer Profitability: Customer Retention Effort

HOUSEHOLDS WITH BALANCES >\$25,000

(\$000'S)

BALANCE
TIERS

HH'S

NEBT

TOTAL
BALANCES

25-50	116,835	\$2,419,918	\$4,157,734,498
50-75	57,470	\$2,023,068	\$3,509,623,133
75-100	34,588	\$1,874,109	\$2,999,458,338
100-200	34,680	\$3,379,299	\$4,522,312,875
200-300	5,467	\$1,221,739	\$1,300,445,137
300-400	1,613	\$579,844	\$550,756,999
400-500	642	\$3,047,482	\$284,588,268
500-1,000	758	\$552,239	\$489,149,727
1,000-1,500	126	\$171,737	\$150,248,037
1,500-2,000	40	\$80,980	\$69,196,207
>2,000	47	\$475,642	\$235,241,062
TOTAL	252,266	\$15,826,057	\$18,268,754,281

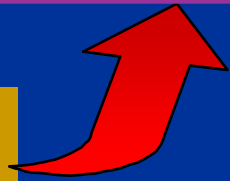
Customer Profitability: Customer Retention Effort

HOUSEHOLDS WITH BALANCES
>\$25,000

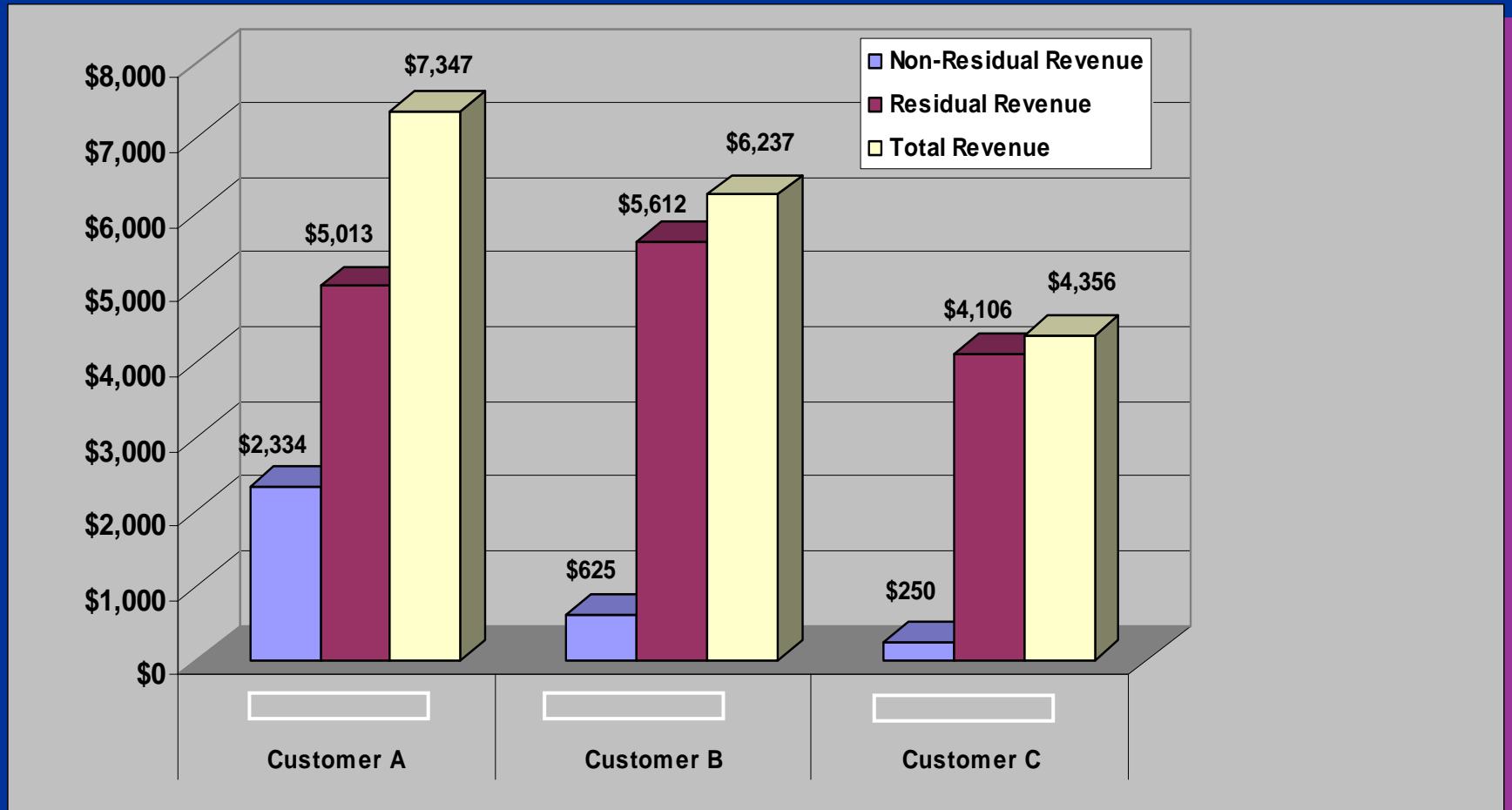
HOUSEHOLDS WITH
BALANCES >\$25,000
THAT HAVE NEGATIVE NEBT

BALANCE TIERS	HOUSEHOLDS WITH BALANCES >\$25,000			HOUSEHOLDS WITH BALANCES >\$25,000 THAT HAVE NEGATIVE NEBT		
	# HH'S	NEBT	TOTAL BALANCES	# HH'S	NEBT	TOTAL BALANCES
25-50	116,835	\$2,419,918	\$4,157,734,498	47,555	(\$1,163,707)	\$1,697,728,391
50-75	57,470	\$2,023,068	\$3,509,623,133	22,742	(\$553,457)	\$1,378,703,079
75-100	34,588	\$1,874,109	\$2,999,458,338	9,813	(\$272,351)	\$844,449,799
100-200	34,680	\$3,379,299	\$4,522,312,875	6,808	(\$269,338)	\$860,603,493
200-300	5,467	\$1,221,739	\$1,300,445,137	484	(\$37,549)	\$112,654,354
300-400	1,613	\$579,844	\$550,756,999	70	(\$11,155)	\$23,438,342
400-500	642	\$3,047,482	\$284,588,268	30	(\$7,436)	\$12,987,906
500-1,000	758	\$552,239	\$489,149,727	17	(\$10,050)	\$9,979,015
1,000-1,500	126	\$171,737	\$150,248,037	1	(\$69)	\$1,000,000
1,500-2,000	40	\$80,980	\$69,196,207	0	\$0	\$0
>2,000	47	\$475,642	\$235,241,062	0	\$0	\$0
TOTAL	252,266	\$15,826,057	\$18,268,754,281	87,520	(\$2,325,112)	\$4,941,544,379

35% of targeted households are unprofitable



Customer Profitability: Driving Towards the Complete Picture



(For illustrative purposes only)

Customer Profitability: 80/20 Rule Magnified

	Tier	Customer #	Customer Name	Total Annual Revenue
1	PLAT	111111	CUSTOMER #1	\$46,351
2	PLAT	111222	CUSTOMER #2	\$36,866
3	PLAT	111333	CUSTOMER #3	\$35,914
4	PLAT	111444	CUSTOMER #4	\$30,557
5	PLAT	111555	CUSTOMER #5	\$29,255
6	PLAT	111666	CUSTOMER #6	\$27,442
7	PLAT	111777	CUSTOMER #7	\$26,633
8	GOLD	111888	CUSTOMER #8	\$24,655
9	PLAT	111999	CUSTOMER #9	\$21,396
10	PLAT	111000	CUSTOMER #10	\$21,195
11	PLAT	222111	CUSTOMER #11	\$21,014
12	PLAT	222222	CUSTOMER #12	\$20,867
13	PLAT	222333	CUSTOMER #13	\$20,602
14	PLAT	222444	CUSTOMER #14	\$19,560
15	PLAT	222555	CUSTOMER #15	\$19,275
16	PLAT	222666	CUSTOMER #16	\$19,089
17	PLAT	222777	CUSTOMER #17	\$17,856
18	PLAT	222288	CUSTOMER #18	\$17,203
19	PLAT	222999	CUSTOMER #19	\$16,452
20	PLAT	222000	CUSTOMER #20	\$16,039

Top 20 Customers
30.5% of Total Revenue
1.5% of Total Clients

Bottom 80% of Customers
13.3% of Total Revenue

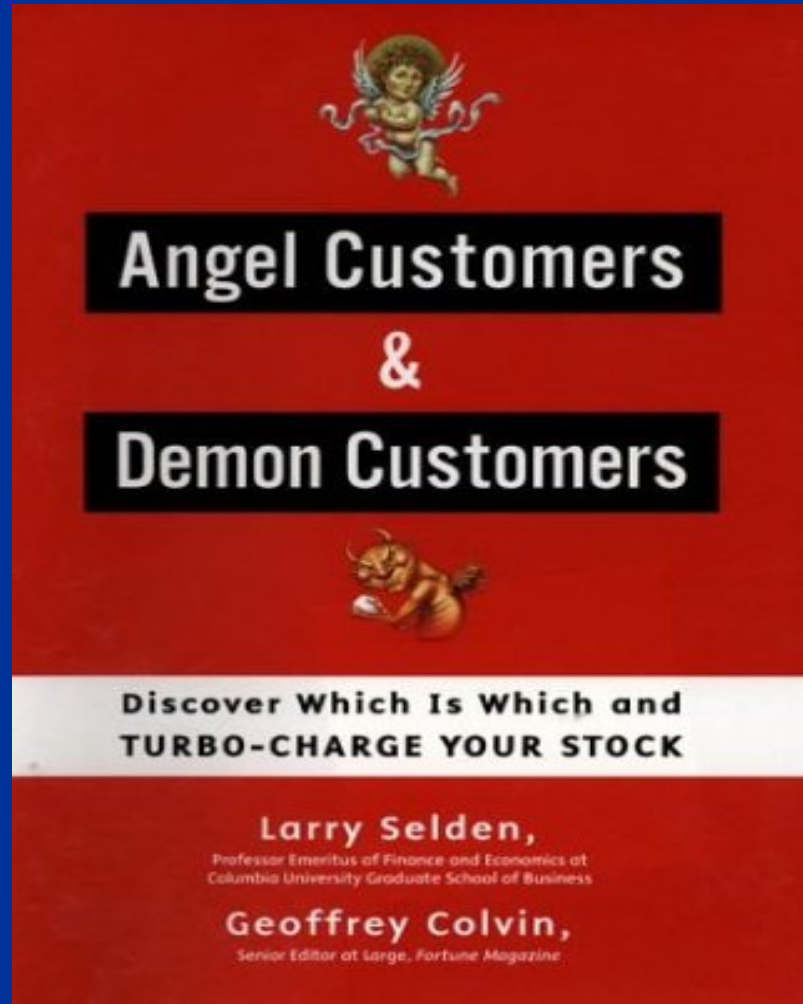
Customer #1 Detail

Customer #8 Detail

1378 Clients in FA-Team

(For illustrative purposes only)

Customer Profitability: Front and Center for Senior Management



Web-Based Reporting: Prerequisite to achieving Pervasive BI

“Pervasive Business Intelligence is BI for the rest of organization. It's the ability to take relevant information that is usually reported up to management and push it down to users.”

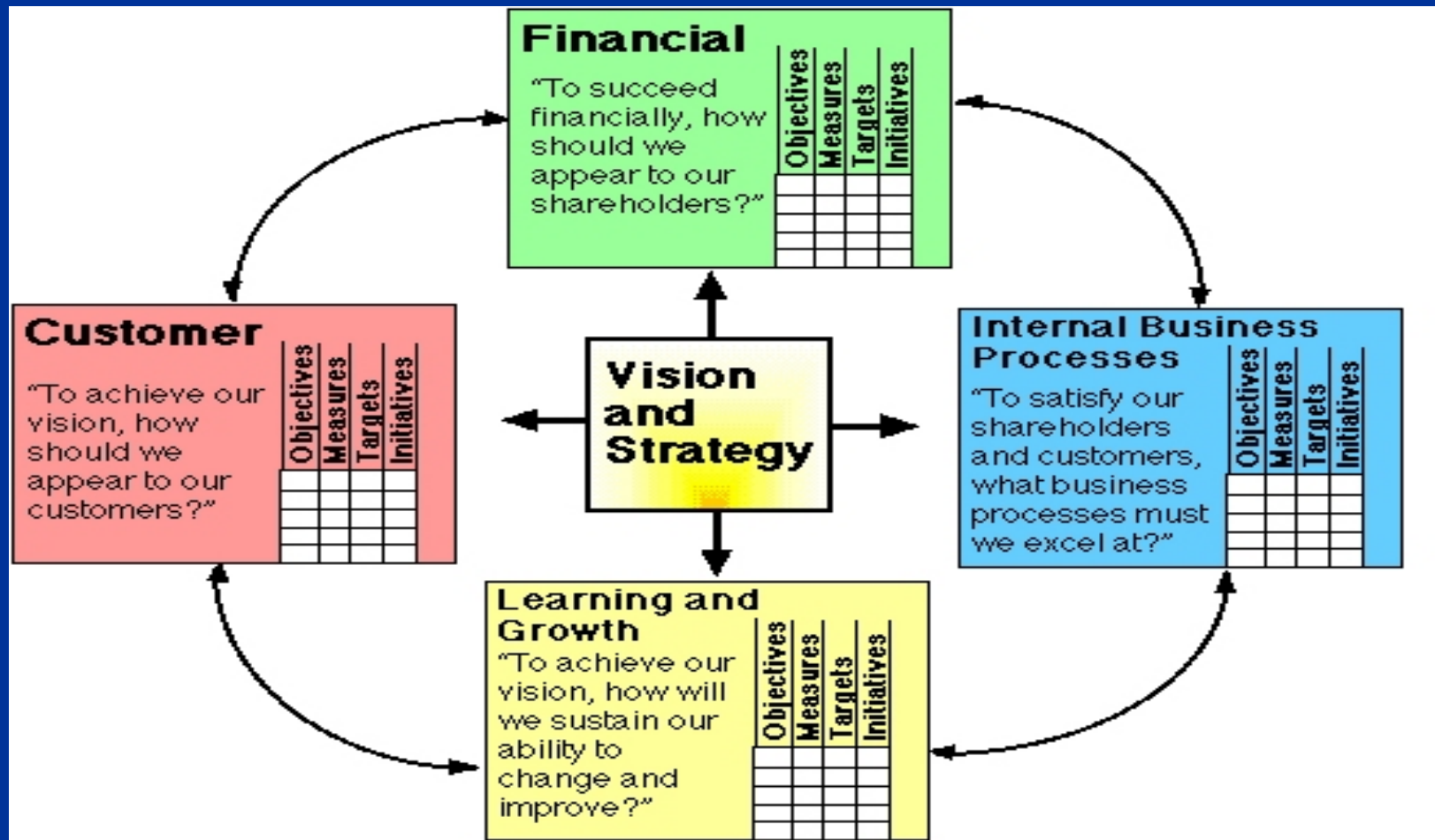
Source: DMReview, April 2005

Web-Based Reporting: Business Intelligence System (BIS)

The BIS Platform distributes client-centric information throughout the organization

- Available via Intranet to over 15,000 IIG Branch personnel:
 - Financial Advisors
 - Branch Operations
 - Regional Managers
 - Client Service Associates
 - Branch Managers
 - Local Market Managers
- Also available to Product, Segment and Senior Management personnel

Performance Measurement: Implement a Balanced Scorecard



Performance Measurement: Implement a Balanced Scorecard

Balanced Scorecard selected as one of the most important management concepts in the last 75 years by HBR

Bookstore - Balanced Scorecard Collaborative, Inc. - Microsoft Internet Explorer

Address <http://www.bscol.com/invoke.cfm/F0909FDD-A9C3-11D4-A8C000508BD0C96C1>



The screenshot shows a Microsoft Internet Explorer browser window displaying a bookstore page. The address bar shows the URL: <http://www.bscol.com/invoke.cfm/F0909FDD-A9C3-11D4-A8C000508BD0C96C1>. The page displays six book listings, each with a cover image, a title, authors, and links for 'Details' and 'Purchase'.

- THE STRATEGY FOCUSED ORGANIZATION** by Robert S. Kaplan and David P. Norton
- TRANSLATING STRATEGY INTO ACTION: THE BALANCED SCORECARD** by Robert S. Kaplan and David P. Norton
- Harvard Business Review on Measuring Corporate Performance**
- COST & EFFECT** by Robert S. Kaplan and Robin Cooper
- Balanced Scorecard: Step by Step** by Paul R. Niven
- IMPLANTING STRATEGIC MANAGEMENT (Second Edition)** by Igor Ansoff and Edward McDonnell

Vendor Selection

Goal was to seek solutions with the following attributes:

- Solution/Provider recognized as Industry Leader
- In full compliance with our IT Architecture
- Maximized seamless integration of our needed capabilities
- Solution Providers committed to a “partnership” model
- Solution Provider’s Financial Viability outlook was strong

Vendor Selection

- Capabilities identified as critical to success:
 - Data Mining - SAS
 - Predictive Model Development - SAS
 - Business Intelligence - SAS/Business Objects
 - Client Profitability/LTV - SAS
 - Campaign Management - SAS
 - Intranet-Based Reporting - Business Objects
 - Performance Measurement - SAS

Customer Segmentation: Requires Business Intelligence

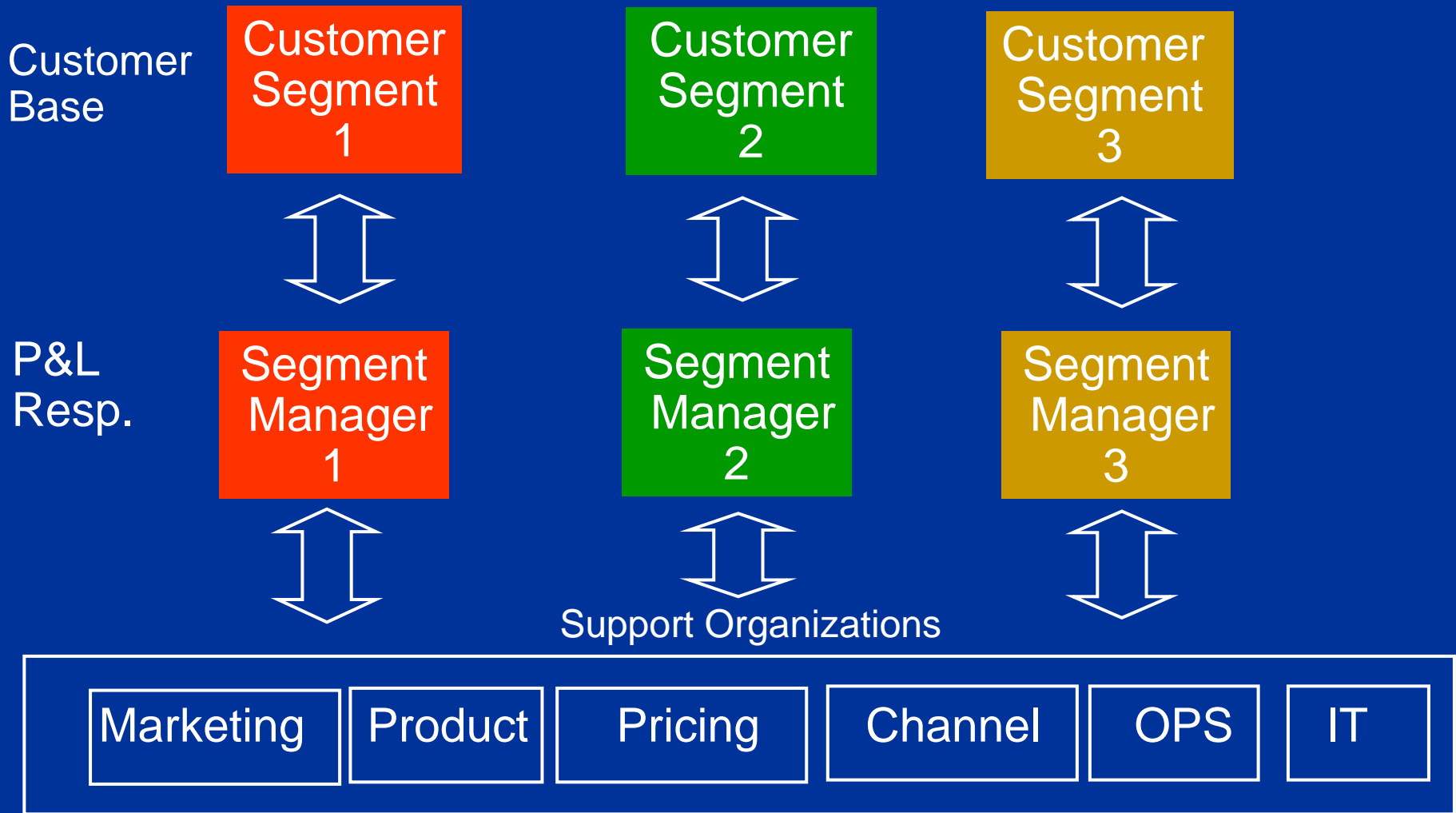
Customer Segmentation: The subdivision of a market into discrete customer groups that share similar characteristics.

Customer Segmentation requires an organization to:

- **Divide the market into meaningful and measurable segments according to customers' needs, their past behaviors or their demographic profiles;**
- **Determine the profit potential of each segment by analyzing the revenue and cost impacts of serving each segment;**
- **Target segments according to their profit potential and to the company's ability to serve them in a proprietary way;**
- **Invest resources to tailor product, service, marketing, and distribution programs to match the needs of each target segment;**
- **Measure performance of each segment and adjust the segmentation approach over time as market conditions change**

Source: Bain & Company

Organizational Alignment to Support True CRM



Business Intelligence: Critical Capability to become a Knowledge-Driven Client-Centric Organization

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