



Business Impact

“The best 20 percent of customers contribute profits equal to 500 percent of earned income, while 60 percent break even at best; the worst 20 percent destroy 400 percent of earned income.”

Peter Turney
CEO, Cost Technology

Challenges

- **Inaccurate allocations.** Based on broad averages (e.g., personnel, occupancy, equipment) cost allocations can be wildly inaccurate when compared with the cost of the actual processes and their associated work activities, often simply re-measuring revenue instead of properly calculating profitability.
- **Idle capacity and excess or benched resources.** Standard cost systems typically allocate these costs – which they cannot identify and segregate – to end products and customers, thus over-inflating their true costs and hiding the problem.
- **Focus on inputs vs. processes.** Standard costing systems can report on the costs of resources and inputs down to the penny, but provide no insight whatsoever into the efficiency and effectiveness of the processes and activities that create – or sometimes destroy – value.
- **Broad-brush approaches.** Traditional cost systems cannot allocate any of the nonstandard costs – such as marketing programs or sales incentives – to the particular product or customer driving these costs.

How can we gain an understanding of the true cost and profitability of our products, customers and processes?

YOUR GOAL: Improve profitability through better customer/product decisions

Financial institutions must make difficult decisions regarding priorities, resources, costs and strategies both in times of economic crisis and in prosperity. And having accurate cost and profitability data is paramount. It's like the difference between using a detailed street map to get where you're going expediently, or using a higher-scale map that gives you only a general sense of direction. Business decisions can be bad, good or optimal – the outcome depends on the quality of the information available.

Most executives struggle to understand which products, customers, regions and business segments are the most profitable. They don't have the information or ability to analyze profitability at these levels, and without knowing what drives profitability, they can't judge how business decisions affect profitability. For example, you may know who your biggest customers are, but without an accurate view of customer profitability, you must make important decisions based only on sales, marketing, pricing and CRM data, and implement strategy based on guesswork. Under such limitations, you may make bad decisions about reducing branch staff or service levels, and good decisions regarding product mix, sales incentive plans and marketing programs could be even better with more targeted approaches and strategies.

OUR APPROACH

Standard cost systems that allocate indirect expenses based on broad averages don't reveal which aspects of your business operations are driving customer and product profitability. SAS approaches the problem by delivering software and services to help you:

- **Understand the underlying profitability of each product, channel, customer or customer segment** by understanding the true costs and cost drivers that affect that profitability, rather than relying on unreliable proxies (e.g. volume, revenue or price).
- **Actively manage profitability as a performance metric**, setting budgets and targets based directly on profitability that's measured down to the individual product, customer and channel using:
 - **A powerful modeling engine** that calculates the current value and future potential of products, customers and channels.
 - **Activity-based costing** to gain an accurate picture of how well your products, customers and channels are contributing to – or detracting from – your profitability.
- **Know which customers to target for cross-selling and up-selling** by optimizing customer segments and developing strategies and models to determine appropriate channels and set targets to advance the profitability of each customer.
- **Acquire and share tactical intelligence for sales, marketing and operational decision making** with flexible reporting capabilities that let you distribute information to whoever needs it in a format that works best for them.

SAS enables finance teams to work in partnership with business unit management, providing insight for developing effective marketing, customer and product strategies, and improving – not just monitoring – business performance.



THE SAS® DIFFERENCE: Helping you execute your customer and marketing strategy more effectively

SAS is the only vendor to design and optimize a cost allocation engine for different modeling methodologies. A specialized, rules-based procedure calculates costs and revenue based on individual customer transactions, a natural way to model cost at the most detailed level. Only SAS provides:

- **Multiple costing and management methods.** SAS lets you model the way your business is designed by supporting hundreds of costing methods, models and theories:
 - Top-down (e.g., full absorption, CAM-I, quantity-based assignment, single stage).
 - Bottom-up (e.g., rate-based, time-based, event-based, time-driven, bill-of-cost, external unit, activity-based budgeting and planning, consumption-rate modeling).
- **Scalability and reporting frequency.** Calculate profitability at a detailed level for huge volumes of cost drivers and transactions, which has never before been possible. This reduces the cycle time of the entire calculation and reporting process, and enables regular and more frequent management reporting and analysis.
- **Advanced, predictive analytics.** SAS uses a patent-pending methodology to forecast customer profitability for predicting transaction output relative to various customer behaviors, as well as other analytic techniques (e.g., cluster and survival analysis).

Only SAS provides you with the level of insight into the causes of profitability problems that enables decision makers to focus on improvement opportunities, develop corrective action plans, streamline processes and formulate differentiated customer marketing programs to acquire, retain and grow your most profitable customers.

CASE STUDY: A large financial services organization

Situation

Faced with a competitive and maturing market in credit cards and cash products, the firm had no clear picture of costs by division and associated work by customer and product. As a result, the firm lacked a detailed understanding of product and customer profitability.

Solution

SAS provided a cost and profitability optimization solution that enabled the firm to:

- Gain insight into the costs associated with each work division.
- Understand how this contributed to the profitability of its products and customers.

Results

- Stronger insights into the firm's 6 million credit card accounts are used as key criteria for focusing sales and marketing efforts.
- Personnel costs in the customer service division were reduced by 14 percent.
- Some product costs dropped by 50 percent.

What if you could...

Identify your most and least profitable products

What if you could make process improvements for your least profitable products and boost marketing efforts for your most profitable products?

Identify your most and least valuable customers, and take appropriate action

What if you knew with confidence the impact of sales, marketing and pricing decisions on each customer or customer segment?

Aim your marketing strategy at the right targets

What if you could differentiate your marketing programs by expected profitability and cost-to-sell?

Improve processes to reduce costs and increase quality

What if you could understand whether or not each activity was contributing to value as expected, or might be in need of business process re-engineering?

You can. SAS gives you THE POWER TO KNOW®.

SAS FACTS

- SAS customers make up 97 percent of banks in the FORTUNE Global 500®.
- SAS has been in business since 1976 and today has customers at more than 50,000 sites worldwide, including more than 3,100 financial institutions.
- SAS has been named a leader among nine vendors in "The Forrester Wave: Predictive Analytics and Data Mining Solutions, Q1 2010."

Learn more about SAS software and services for banking at:
www.sas.com/industry/fsi



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