

2011

# Profitability Analysis Research



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Profit is a simple word. We all know it means returns greater than investments, and monetary surplus after the costs of producing products and services. We plan for it, strive for it, even covet a profit margin that exceeds ROI expectations. But how do we measure it? What factors contribute to the bottom line? Which data elements should be analyzed to authenticate financial statements and assure greater yields? What tools do you need to monitor revenue and expense to present a solid plan for profitability analysis?

Profitability vendors use varying methods to interpret financial data for measuring past and forecasting future profitability for clients. These four questions are the basis for each vendor we researched.

1. When it comes to profitability analysis what is their primary focus or approach?
2. What data bases do they consult, critique, or use to verify or support their approaches?
3. How do they contract with their clients – seminars, software, periodic reports, etc.?
4. Do they have programs or partnerships with CUSOs to reach shared audiences?

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# KOHL ADVISORY GROUP

<http://www.kohlag.com/>

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## 1. When it comes to profitability analysis what is their primary focus or approach?

The analytical foundation for all services provided by the Kohl Advisory Group is Activity-Based Costing (ABC). ABC discloses cost and profitability levels by product with the added benefit of understanding the reasons for cost and return.

The Activity-Based Assessment of Balance Sheet Products is based on cost and profitability by product. This methodology helps develop both a pricing and marketing model to decide which products to promote aggressively while others are selected more passively because they are the weaker performers.

ABC also contributes to the process of making products more profitable.

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## 2. What data bases do they consult, critique, or use to verify or support their approaches?

Kohl Advisory Group uses the credit union's own data and sample data from credit unions of similar size.

Required data includes total balances, number of loans and deposit accounts, average yields, projected loan losses, average interest rates and non-interest income (all by product). These amounts are used in conjunction with the average operating costs by product (from Kohl's ten most recently completed credit unions) and your credit union's total operating expense. Total net income therefore ties to your actuals.

Utilizing this methodology, Kohl Advisory Group provides reasonable estimates of profitability by lending product and the "All In Cost of Funds %" by deposit product.

### **Lending Product Activities and associated costs for each loan type have been developed and reported by major cost element:**

1. Direct Cost to Take Applications and Underwrite Loan (Cost per App)
2. % of Loan Applications that Result in Booked Loans
3. Application Cost per New Loan Booked (#1 divided by #2)
4. Direct Cost to Complete Paperwork and Fund a new Loan
5. Marketing Expense per New Loan Booked
6. Total Cost to Originate a New Loan (#3 + #4 + #5)
7. Estimated Average Life of a New Loan in Years
8. Total Loan Origination Cost Recognized per Year (#6 divided by #7)
9. Total Collection Cost per Year per Existing Loan
10. Total Non-Collection Cost per Year per Existing Loan
11. Projected Net Charge Offs per Year per Existing Loan
12. Total Direct Cost per Year per Loan (Sum of #8 through #11)

**Deposit Product Activities and associated costs for each addressed deposit product have been summarized into the following major cost elements:**

1. Transaction Related Cost per Year per Depository Account
2. Account Support Expense per Year per Depository Account
3. Marketing Cost per Year per Depository Account
4. Less: Total Fees & Other Income per Year per Depository Account
5. Average Dividend Cost per Year per Depository Account
6. Total Direct Cost per Year per Account (Sum of #1 through #3 less #4 + #5)

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**3. How do they contract with their clients – seminars, software, periodic reports, etc.?**

There are two packages offered. One is a comprehensive profitability analysis. The second addresses cost and profitability only.

**ABC Product Profitability Snapshot (\$5,500)**

The ABC Product Profitability “Snapshot” averages cost data by product in combination with actual information by product from the credit union. A comprehensive report is created that includes charts depicting each major cost element by product and the resulting financial contribution (ROA) for each category of loans. An onsite presentation is also included that explains the findings and suggests how they should influence marketing, pricing, product design and other product related decisions at the credit union.

**Product Cost Summary for Credit Unions (\$175)**

For smaller credit unions, and others not currently positioned to acquire a full Activity-Based Assessment of Balance Sheet Products, Kohl Advisory Group offers a moderately priced alternative that approximates the cost and profitability of the same 13 lending products and 6 types of deposits addressed in the 2010 Product Cost Summary.

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**4. Do they have programs or partnerships with CUSOs to reach shared audiences?**

**Testimonials from 5 credit unions**

Joel Polster  
SVP Financial Operations  
**Navy Federal Credit Union**  
\$40 billion assets

Karen Rosales  
Marketing & Business Dev.  
**Justice Federal Credit Union**  
\$500 million assets

Janet Lee  
Chief Financial Officer  
**Chevron Federal Credit Union**  
\$1.4 billion assets

**Strategic Partners**

**The Financial Managers Society, Inc.** The Financial Managers Society, Inc. is the only individual membership society exclusively devoted to the needs of finance & accounting professionals from financial institutions.

**The FCUL Service Group, Inc.** is a wholly owned subsidiary of the Florida Credit Union League. The mission of the FCUL Service Group, Inc. is to develop, market, and provide proven business solutions to credit unions in and out of Florida

# SEDONA CORPORATION

<http://www.sedonacorp.com/understanding-profitability-credit-union.aspx>

Sedona's organization has a broad range of products and services. The enterprise is segmented into units:

Banking Solutions, Credit Union Solutions, Technology, Professional Services, Proven Results, Resources, and Investor Relations. Within each segment, there are multiple services. This overview is limited to Profitability understanding the integrating factors.

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## 1. When it comes to profitability analysis what is their primary focus or approach?

Sedona's philosophy is to first understand which members are profitable, which are not, and what makes them that way. They believe that without this piece of information, cross-sales are deficient and the drive toward selling certain products is ineffective toward the bottom line.

**Profit analysis is comprised of these factors:** product / individual member / household / account / bank employee / credit union branch level.

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## 2. What data bases do they consult, critique, or use to verify or support their approaches?

Databases are not identified specifically, but Sedona's software SEDONA MRM™ has the capability of using data from three sources. 1) in-house data from the credit union, 2) a database of industry normatives to deliver 'relative profitability', or 3) data generated from third-party profit systems.

The premier source of profitability measurements is ProfitPro, but the base system has to be purchased first. The credit union profit information provided by SEDONA MRM can be used in a variety of ways:

- to segment and analyze credit union members into appropriate groups for marketing and sales programs
- to establish product pricing
- to optimize operational efficiencies
- to set member service policy

ProfitPro is an add-on module to SEDONA MRM that provides a more comprehensive view of profitability.

ProfitPro calculates realistic and accurate profitability figures that can balance to your 5300 Call Report.

With ProfitPro, your credit union can:

- Choose which products to measure and at what level (product line, product, sub-product).
- Use simpler blended rates or historical FTP rates.
- Produce profit numbers at three levels: account, individual or business, and household.
- Include income and expense for both interest and non-interest, as desired.
- Factor in varying overhead ratios at different branches, departments, and divisions.
- Understand the specific source of profitability. Is it net interest income or fees?

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### 3. How do they contract with their clients – seminars, software, periodic reports, etc.?

Sedona offers two options for purchasing and maintaining their system. Direct purchase of a license which allows the organization to deploy the system and integrate it into their own technology infrastructure. Or SEDONA offers an in-house hosted solution where the database is housed on the SEDONA secured servers.

The testimonials were impressive because many writers credited SEDONA MRM with integrating member/customer needs with product knowledge to offer the right products and services at the right time:

<http://www.sedonacorp.com/testimonials.aspx>

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### 4. Do they have programs or partnerships with CUSOs to reach shared audiences?

This list of organizations was under the link to Indirect Partners

**Bradford Scott Data Corporation** - Headquartered in Indianapolis, Bradford-Scott, a Sharetec Systems owner, is a leading provider of core data processing systems to credit unions.

**COCC** - One of the fastest growing data processing companies in the nation and one of this year's FinTech 100 and Inc. 5000

**Data Systems of Texas** - Providing credit unions in Texas and other parts of the southwest with core data processing options

**Fiserv Credit Union Division (Nasdaq: FISV)** - Fiserv's credit union solutions provide core processing and related products.

**GBS** - Founded in 1971 with headquarters in North Canton, Ohio, GBS was established on the belief that information is an important asset of virtually any business.

**Share One** - A credit union and employee owned credit union service organization (CUSO) with the principal objective of providing comprehensive data processing systems to the Credit Union Industry. Headquartered in Memphis, TN

**CU ink** - Connect. Build. Grow. Credit Unions can do it all with a CU ink marketing partner.

**Profit Technologies** - An international earnings enhancement firm providing specialized profitability and performance improvement solutions to enterprises worldwide.

SEDONA's data analysts have successfully interfaced to all of the following credit union core processing systems.

EPL, Prologic Corporation i-WealthView, Open Solutions re:Member Data (CUStar), Jack Henry & Associates Episys, Harland UltraData, Fiserv Credit Unions Division Advantage, Charlotte, CUBE, CUBEol, Galaxy, Premier, Spectrum, DataSafe, and XP2.

SEDONA's data analysts have successfully interfaced to all of the following bank core processing systems.

Data Dimensions, Fidelity Horizon, Fidelity Miser, Fidelity Systematics, Fidelity Advantage 32, CBS, CBS ODS, Fiserv CustomerFile, Fiserv Source One, Fiserv Fusion, Fiserv ITI Premier, Fiserv ITI Prime, Jack Henry & Associates Banker II (BancTec), Jack Henry & Associates CIF 20/20, Jack Henry & Associates Core Director (BancTec), Jack Henry & Associates Liberty, Jack Henry & Associates Peerless 21, Jack Henry & Associates Silverlake, Metavante DataWarehouse, Metavante Service Bureau, Open Solutions EastPoint, Open Solutions TCBS, and Phoenix International Universal Banking.

# RADDON FINANCIAL GROUP

<http://www.raddon.com/products/CEO/>

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## 1. When it comes to profitability analysis what is their primary focus or approach?

Raddon uses a CEO Strategies Group to front their profitability discipline. With over 1000 institutions participating, they promote benefits such as: Improve revenue, efficiency, margins and sales Assess product line to maximize customer participation and earnings Leverage your branch investment for customer and balance growth

The CEO Strategies Group is a semi-annual program. Twice a year clients receive a 400+ page report that includes:

- Strategic overview of performance based on operational efficiency, net interest margin management, non-interest income and relationship management.

- Analysis of customer participation and identification of cross-sell opportunities.

- Comprehensive product assessment to determine the profitability of each product.

- Thorough branch performance analysis.

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## 2. What data bases do they consult, critique, or use to verify or support their approaches?

The CEO Strategies Group integrates your institution's household database and financials to offer a unique look at household profitability, product opportunities and overall performance.

RFG's objective is to provide financial institutions with a comprehensive analysis of integrated household and financial data, through which RFG can offer new product ideas, strategic guidance and actionable customer segmentation.

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## 3. How do they contract with their clients – seminars, software, periodic reports, etc.?

At Raddon, they offer white papers written from their research, study groups, classroom training, and webinars with recordings. Consulting and education are prime resources for Raddon clients.

The breadth of Raddon services is broad ranging from Database Research, Profitability Analysis, Market Analysis, Consumer Research, Data and List Solutions, software and others. Regardless of range, all clients are under the financial services industry umbrella.

Raddon offers web demos of some services, and PDF brochures of others. They also have copious pages of description on their website, and contact information throughout.

Through **their semi-annual CEO Strategies group**, they offer periodic reports that include such factors as performance based on operational efficiency, analysis of customer participation with cross-sell opportunities, product assessment and profitability of each, thorough branch performance analysis.

There is also a **one-year membership model of the CEO Strategies Group**. This version includes two customized reports and two regional workshop meetings and two executive summaries. There is also an optional onsite presentation of results.

The **President's Report** is designed to show the dollar value and strategic and tactical recommendations that allows the client to prioritize initiatives.

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#### **4. Do they have programs or partnerships with CUSOs to reach shared audiences?**

Raddon has a number of programs and partnerships but they look geared toward credit unions rather than CUSOs. The segments of the industry that Raddon covers are broad.

The first sentence they use to describe their services is: *At Raddon Financial Group (RFG), we arm financial industry decision-makers with objective data gained through our innovative research techniques and unique database resources. We offer far more than data. We provide strategic guidance and tactical solutions to meet the challenges of the continually changing financial services industry.*

#### **Marketing**

If your institution does not have the time, budget, or resources to develop and manage a matrix marketing program, RFG can help!

RFG will analyze both your financial and customer data to recommend and develop matrix campaigns that address your unique goals. RFG will household and segment your data, create dynamic contact files and format the data for production and mailing. The result is a program that sends specific offers with highly-targeted messages to meet the specific needs of each household.

#### **CEO Strategies Group**

This appears to be one of their premier products which is described in the dialogue above. The CEO Strategies Group integrates your institution's household database and financials to offer a unique look at household profitability, product opportunities and overall performance.

#### **Research Solutions**

Research Solutions is one of their main products for credit unions. It consists of Surveys, Market Research,

Of their research, they say: You must pay special attention to small business clients to capitalize on the high level of potential profitability they offer. This unique market clearly has its own needs. In order to implement client-driven actions to best serve this segment, you have to listen to what they have to say about their financial service wants and needs.

#### **Consulting Solutions**

Raddon capitalizes on their consulting skills in the capacity of these disciplines: Strategic planning, Mergers & Acquisitions Planning, Branch & Market Analysis, and Marketing Plan Analysis

#### **Technology Consulting**

This segment of their business covers technology awareness, process improvement, CRM strategies, security and operations, databases and infrastructure.

## Next Generation Profitability Analysis

nextPROFIT is the next evolution of household profitability measurement and analysis. nextPROFIT maps income and expense from the institution's general ledger (GL). It also incorporates activity-based profitability and flexible transfer pricing to give clients a new level of flexibility, accuracy and synchronization of their household profitability with their actual financials. nextPROFIT will enhance your MCIF database to foot to your GL each month.

### Map to Your General Ledger

This module maps your GL to your iNTEGRATOR database on a monthly basis. Now MCIF profitability can balance back to your most current GL.

### Activity-based Profitability

With activity-based profitability, RFG allocates checking account revenue

and expenses based on your customers actual transaction activity. Every checking account has unique non-interest income based on fee and interchange revenue, and every checking account has unique expenses based on channel usage. nextPROFIT measures these factors on each account to give you accurate, account-specific profitability. RFG also calculates how credit card transaction activity impacts profitability at the account, individual and household levels.

### Flexible Transfer Pricing

Flexible transfer pricing gives you the ability to choose from multiple replacement rate sources (U.S. Treasury, LIBOR, FHLB, etc.). Pick the transfer pricing model that best fits your organization, and select the right duration estimates for each product.

### Risk-based Loan Loss Allocation

Allocate loan loss based on credit score. For institutions that do risk-based pricing, nextPROFIT lets you allocate loan loss based on risk. This process evens the playing field so you can accurately determine the profitability of credit segments.

### Profit Override

nextPROFIT gives you the option to adjust specific product variables or import profit data from an external source.

### Keep Sensitive Data Behind Your Firewall

nextPROFIT moves iNTEGRATOR and CEO Strategies processing behind your institution's firewall. This means no sensitive personal information needs to leave the institution. All data extracts are automatically encrypted with the AES (US Advanced Encryption Standard) symmetric encryption algorithm using 256-bit keys (complies with U.S.G. standards for encryption).

# PROFIT INSIGHT / RENAMED FROM PROFIT TECHNOLOGIES

<http://www.profit-tech.com/>

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## 1. When it comes to profitability analysis what is their primary focus or approach?

Profit Technologies adds value to financial institutions by developing and implementing solutions and tactical strategies that improve the profitability of our clients' portfolio of products and services.

Areas of expertise: **Deposit Performance Consulting** (paragraphs describing each are on their website)

- Product Diagnostic & Rationalization
- Fee Diagnostic & Enhancements
- Overdraft Management
- Margin & Spread Management
- Debit Card Optimization
- Smart Check Recovery
- Check Program Improvements
- Postage Expense Management

Areas of expertise: **Card & Loan Performance Consulting** (paragraphs describing each are on their website)

- Pricing & Spread Management
- Fee & Diagnostics & Enhancements
- Marketing Effectiveness & Expense Management
- Acquisition Strategies & Risk Management
- Business Process Re-Engineering & Operations
- Product Rationalization & Development
- Analytic Advisory & Compliance Services
- Merchant Services
- Growth & Retention

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## 2. What data bases do they consult, critique, or use to verify or support their approaches?

A review of their practices associated with each of their areas of expertise, it appears that Profit Insight uses credit union's data, policies, inputs, outputs, controls, standards, structures for tiering, current pricing, etc. I don't see an indication that they use specific industry standards or benchmarks resident in an automated tool.

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## 3. How do they contract with their clients – seminars, software, periodic reports, etc.?

There's a toll-free number to call and an online form to fill out to ask for more information. There is nothing specific about contracting on the website. There is a registration form for access to their resource library of white papers.

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## 4. Do they have programs or partnerships with CUSOs to reach shared audiences?

Profit Technologies adds value to financial institutions by developing and implementing solutions and tactical strategies that improve the profitability of our clients' portfolio of products and services. Our innovative services and solutions have revolutionized various financial products and services offered throughout the financial services sector. We've also assisted clients in obtaining leadership positions in product profitability and structuring.

# PROFITSTARS

<http://profitstars.com/>

ProfitStars® encompasses the products and services provided by the 18 companies Jack Henry & Associates, Inc. (JKHY) has acquired through its focused diversification strategy. These highly specialized products and services enable diverse businesses and financial institutions to increase revenue and growth, mitigate and control risk, and control costs.

Jack Henry & Associates consists of three primary brands, one of which is Symitar™ providing credit unions of all sizes with industry-leading information and transaction processing solutions that are also available for in-house and outsourced implementation.

ProfitStars® provides best-of-breed solutions that enhance the performance of domestic and international financial institutions of all asset sizes and charters using any core processing system, as well as diverse corporate entities.

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## 1. When it comes to profitability analysis what is their primary focus or approach?

### ALM, Budgeting, & Financial Reporting

Enterprise Profitability Solutions- Relationship Officers build solid customer relationships thereby enhancing profitability

A financial institution's profitability revolves around their customers. Building the right relationship with customers increases profitability. Relationship Profitability Management is part of ProfitStars' solution for building solid relationships. It can provide valuable insight into the profitability of one customer versus another. Relationship Profitability Management provides tools to determine if a particular loan pricing policy is adding to or taking away from value. Credit costs and risk ratings are laid out on the screen, which also enables managers to price more accurately. Relationship Profitability Management's drill-down capability provides the insight needed to make strategic decisions.

ProfitStars® also offers the PROFITability® module as a solution to track and analyze profitability based on branches, officers, products, and other factors that affect the customer's relationship. PROFITability is designed to help manage risks properly – creating the most favorable conditions for success. A financial institution manager commented that one of the most helpful management disciplines enabled by PROFITability is that the true contribution of each branch to profit and loss can be accurately measured.

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## 2. What data bases do they consult, critique, or use to verify or support their approaches?

**PROFITstar ALM/Budgeting** is the asset/liability management and budgeting system that provides the robust functionality needed in order to perform sophisticated modeling and shock balance sheet and income statements with multiple interest rate scenarios.

This system also allows institutions to track “what-if” scenarios with strategic monitors that automatically create audit trails, analyze market risk in response to regulatory requirements, determine the accurate value for FAS107 reporting, and create detailed, summary, and variance finance and budget reports.

### Here are just a few of ALM/Budgeting features:

- Intuitive, network-based system
- Financial manager controls over all budgeting
- Documents all budget assumptions
- All capital expenditures approved line-by-line
- Facilitates ongoing budget forecasting

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### **3. Do they have programs or partnerships with CUSOs to reach shared audiences?**

ProfitStars have a broad client base, but there is no inference to CUSOs. Since this is a Jack Henry company and Symitar is one of their companies, ProfitStars could be more of a competitor than a partner.

# GENPACT

<http://www.genpact.com/home.aspx>

This is what Genpact has to say about their core business: Genpact was an early mover in the industry and is a pioneer in many of the areas that have given strength to Business Process Management and the globalization of services. These key methodologies, business initiatives, and practices have been emulated by many others in the industry and around the globe.

Just one segment of the Genpact catalog of services is financial institutions. The roots of a company influence its direction. If you want to see what a company can do for your future, look to its past. Genpact's roots have been solidly planted in the heritage of the General Electric Company. Beginning in 1997 as a GE Capital business unit in India providing business-process management solutions, Genpact has evolved into an independent service provider with a unique end-to-end approach.

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## **1. When it comes to profitability analysis what is their primary focus or approach?**

Genpact provides a comprehensive menu of business process management solutions designed to increase capital of financial institutions while addressing the issues of customer satisfaction and the need for increased revenue and minimal risk.

Genpact stands apart from competitors by addressing process at a detailed level in order to manage the issues facing the retail banking industry today. With domain depth and expertise, we enhance the efficiencies and effectiveness of operations for better business outcomes and enhanced risk management.

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## **2. What data bases do they consult, critique, or use to verify or support their approaches?**

Genpact stands apart from competitors by addressing process at a detailed level in order to manage the issues facing the retail banking industry today. With domain depth and expertise, we enhance the efficiencies and effectiveness of operations for better business outcomes and enhanced risk management.

A leading mortgage lender worked with Genpact in developing a full retail business process management solution that included processing, underwriting, document preparation, funding, closing activities, post-closing activities, and quality control. Based on the client's needs and preferences, these processes were handled at both onshore (30%) and offshore (70%) locations to achieve a lower cost, more variable cost structure with shorter cycle times.

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## **3. How do they contract with their clients – seminars, software, periodic reports, etc.?**

Interested parties can use the online contact for answers to questions on how Genpact can partner with you to improve your business processes.

By leveraging Net Promoter Score (NPS) methodology, we continuously gauge not only client satisfaction, but just as importantly, clients' willingness to recommend Genpact to other organizations. This helps us determine our own efficiencies and strengths and what else we can do to help businesses succeed. Based on our latest full year results, Genpact ranks amongst the top scoring companies in the world.

### **Genpact Webcast Series** (generic description)

Genpact manages over 3,000 processes for over 175 clients worldwide.

Genpact has significantly invested in and developed the first scientific approach to process management, known as Smart Enterprise Processes (SEPSM), which focuses on optimizing process effectiveness in addition to efficiency to deliver superior business outcomes. Genpact seamlessly delivers services from a global network of centers to meet a client's business objectives, cultural and language needs and cost reduction goals.

Genpact is a leader in managing business processes, offering a broad portfolio of enterprise and industry-specific services. The Company puts process in the forefront, coupling its deep process domain knowledge and insights with focused IT capabilities, targeted analytics and pragmatic reengineering to deliver comprehensive solutions for clients. The Company's culture is uniquely ingrained in Lean and Six Sigma and views process management as a science.

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#### **4. Do they have programs or partnerships with CUSOs to reach shared audiences?**

It wasn't apparent that CUSOs are part of their service, but it's an unknown factor.

## DELOITTE

[http://www.deloitte.com/view/en\\_US/us/index.htm](http://www.deloitte.com/view/en_US/us/index.htm)

The industry is taking a hard look at profitability and performance. The spotlight is on developing new products and revenue sources, and organizations will require carefully crafted business strategies to address the effects of regulatory reform, technology change, competitive dynamics and market movements. Our experienced professionals provide a wide spectrum of audit, consulting, finance, tax and risk services to clients in every sector of the banking and securities industry.

If your organization is like most, pricing is a set of disparate activities carried out in different parts of the business. And in many businesses, each function – Finance, Marketing, Sales and Operations – works with a different set of data to make pricing decisions. Different functions also often define goals and reward performance using different metrics, which can be in conflict with each other.

[http://www.deloitte.com/view/en\\_US/us/Services/consulting/feature-offerings/pricing-and-profitability-management/index.htm](http://www.deloitte.com/view/en_US/us/Services/consulting/feature-offerings/pricing-and-profitability-management/index.htm)

Nothing impacts business performance like a focus on pricing. Acting as a lever, small pricing improvements can realize big bottom-line benefits. Yet fewer than 3 percent of businesses effectively manage, execute or communicate prices. 1A successful improvement initiative requires a holistic, cross-functional approach.

Tune into this episode of Deloitte Insights to learn more about how companies can increase profitability through an effective pricing strategy.

[http://www.deloitte.com/view/en\\_US/us/Insights/Browse-by-Content-Type/podcasts/fbb0c727332d1310VgnVCM3000001c56f00aRCRD.htm](http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/podcasts/fbb0c727332d1310VgnVCM3000001c56f00aRCRD.htm)

As companies start looking for ways to maintain margins, vendors that provide price optimization tools are front and center. These tools can help provide organizations with insight to support profitability, defend margins and set competitive prices. So who's the driving force behind getting the price right? In many cases, it's the CFO.

In the recent CFO Magazine article, "The Price is (More) Right," Deloitte Consulting LLP's Mike Simonetto talks about how getting pricing right can keep organizations ahead of their competition

[http://www.deloitte.com/view/en\\_US/us/Services/consulting/feature-offerings/pricing-and-profitability-management/f4c7a9dc0df01310VgnVCM3000001c56f00aRCRD.htm](http://www.deloitte.com/view/en_US/us/Services/consulting/feature-offerings/pricing-and-profitability-management/f4c7a9dc0df01310VgnVCM3000001c56f00aRCRD.htm)

In this CFO article, Mike Simonetto discusses the importance of pricing and the corresponding role of CFO for getting the it right.

For any business, pricing should not only cover the overhead costs to run the business but generate profit too. However, setting the right price for any product or service can be tricky - especially for start-ups. Entrepreneurs often set prices based on the cost of production and don't consider the various operational expenses like licenses, taxes and compensation. Additionally, many owners don't take into account intangible factors like customer service or convenience provided by their product or service.

[http://www.deloitte.com/view/en\\_US/us/Services/consulting/feature-offerings/pricing-and-profitability-management/e686ce51ea460310VgnVCM3000001c56f00aRCRD.htm](http://www.deloitte.com/view/en_US/us/Services/consulting/feature-offerings/pricing-and-profitability-management/e686ce51ea460310VgnVCM3000001c56f00aRCRD.htm)

This report explores Profitability Management Model can help organization account for product, service and customer profitability, and produce meaningful insights from sometimes impenetrable data. This video is geared for Wholesale Distributors.

[http://www.deloitte.com/view/en\\_US/us/Services/consulting/4343f51b01900310VgnVCM100001a56f00aRCRD.htm](http://www.deloitte.com/view/en_US/us/Services/consulting/4343f51b01900310VgnVCM100001a56f00aRCRD.htm)

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## One piece at a time

When companies do take on pricing, it can be hard to know where to start. The job of setting the right price is only the most visible part of the overall strategy, which can engage nearly every part of the business. The more effective course is to take on the challenge of pricing in bite-size portions that set clear, aggressive goals within tight timelines. Important steps - like segmentation, improving price execution processes, or understanding profitability at the customer, product or channel level - can be executed within 100 days. And, as an interconnected whole, they can add up to significant long-term changes.

No matter where you start, gaining transaction-level insights –that is, knowing exactly what is happening in each and every sales transaction– is the key to understanding exactly where and how a company’s pricing and profitability can be improved. Armed with these insights, you can align spending on individual clients with the value they create. For example, a discount is an investment in your customer. Are you getting the right level of return on that investment? Do you know which customers consume the most technical support? All customers are not created equally. Transaction-level insights can help you understand the differences more clearly – and change your pricing accordingly.

## How we can help

Deloitte is routinely ranked as the top pricing practice in the world by leading analysts. We offer an end-to-end approach to improving the entire spectrum of pricing capabilities, not just bits and pieces along the way. Strategy. Price optimization. Process improvement. Organization design. Transaction analysis. Technology selection and implementation. Change management. We put it all to work together, building on transaction-level insights to help some of the world’s most successful companies become even more competitive through improvements in pricing strategies, processes and capabilities. And when it’s time to put technology to work in support of your plans, we have close alliances with the top solution vendors to help you get more value, faster.

## Here are some of the ways we can help:

Understand your profit drivers through detailed analytics - including transactional analysis, advanced segmentation and price optimization

Maximize profitability with value - driven pricing strategy and optimization, set in motion by demonstrated implementation capabilities

Sustain profitability by establishing an infrastructure that makes it easy for you to take the reins, accounting for the people, processes and technology aspects of the strategy

## Bottom-line benefits

- Add as much as three percent of addressable revenue to the bottom line in the first six to 12 months
- Improve predictability of profit and volume
- Deliver better visibility to pricing and margin information to improve decision making
- Reduce margin leakage by improving measurement and management of sales activities
- Increase control of transaction profitability through active management of pricing execution
- Create a sustainable approaches that can deliver results for years to come

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## Six ways to get more value now

Deloitte has helped many leading companies improve their approach to pricing. Here are some of the things we've learned along the way:

- 1. Crawl, walk, then run.** Addressing the full range of pricing activities can delay results and could lead to poor implementation decisions. Better to focus on individual processes first, with an eye to how each will play into the big picture.
- 2. Get the facts.** Too often, companies operate with so-called “tribal knowledge” that isn’t rooted in facts, or they can’t agree on a shared perspective on pricing performance and profitability. There’s one surefire way to overcome this obstacle: get the facts. With one source of truth, the organization will be better prepared to make smarter decisions.
- 3. Start with value, not technology.** Pricing isn’t about implementing or even improving a process. It’s about creating value – and that’s where you need to focus. Instead, some begin their efforts to improving pricing by purchasing commercial software or redesigning processes. As a result, the project eventually shifts away from generating value. Don’t fall into that trap. Keep margin and price improvements in your crosshairs, and everything else will eventually fall into place.
- 4. Plan for the unexpected.** Businesses change. Markets change. The competition changes. Make sure your pricing program is flexible enough to meet unexpected shifts in priorities and underlying business realities.
- 5. Force go/no-go decision points.** View the pricing initiative as a series of mini-milestones, at which executive leadership is required to make the call on the next steps. Keeping the executive team involved frequently helps create a sustained focus on value, and limits the downside of the business case.
- 6. Examine your prices at the transaction level.** Each line item on each invoice either contributes to or subtracts from your operating profit. Your pricing strategy must be built on insights at this level to be truly effective. Advanced data mining tools can help.

# THE SPECTRUM OF PROFITABILITY ANALYSIS

*Text from CUSP magazine*

<http://www.banktech.com/channels/228800884>

<http://www.dbmarketing.com/articles/Art195.htm>

<http://activitybasedmgmt.blogspot.com/2010/08/profitability-solution-for-bank.html>

## **Product Profitability Analysis**

Both in aggregate and by balance range, product profitability can inform credit unions planning to refine product designs, re-price products, create product bundles and more.

## **Customer Profitability Analysis**

Customer Profitability Analysis aids in the development of member-specific sales approaches such as alerts that identify under-performing customers or opportunities for profitability improvement. Credit unions can segment members by profitability or other demographics and tailor strategies to increase the profitability of each segment.

## **Branch Profitability Analysis**

This analysis ranks branches within a credit union's network. Used in conjunction with information about local competition and micro-market conditions, branch profitability analysis helps in the design and execution of micro-market-level strategies. Such strategies consider each location's specific members and competitive characteristics.

## **Prospect/Market Opportunity Assessment**

Using zoning methodology to determine the size and scope of a branch's trade area, this assessment quantifies the potential for each product based on factors such as how many members and small businesses are located within a market.

## **Predictive Modeling**

This model draws on historical transactions and available demographic data to identify and quantify correlations between client characteristics and behaviors. It predicts the probability of member actions, such as closing an account.

## **Cross-sell Propensity**

The cross-sell propensity examines members' purchasing patterns and lifecycle stages as well as the success of the credit union's previous cross-selling promotions to identify which products or services are most likely to drive additional purchases by member groups.

## **Attrition/Churn Analysis**

This analysis helps identify members or member segments that are likely to reduce or end their relationship with the credit union. It quantifies the probability of attrition and identifies likely drivers of behavior.

## **The Chicken or the Egg?**

Credit Unions have traditionally taken a top-down approach to profitability analysis. They start by looking at the credit union's profitability, then they look at the profitability of their products, finally they move on to examining member profitability. This approach does offer some benefits, but another school of thought is to start at the member level. Start at the micro level - which is the members - and understand each seed. Then roll up that knowledge to a product. Then

roll up that knowledge to a market or a branch. From there, use the insight gained from that collective analysis to examine the general ledger.

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## **PROFITABILITY at a glance**

Ideas and principles that provide more bang for a credit union's buck

Most financial institutions, including credit unions, use one of three business models to evaluate profitability.

According to Rich Weissman, president of profitability firm DMA, each model corresponds to a cultural phase within the industry history. Here are those 3 business models.

### **STOP**

Institutions operating within independent silos versus a holistic enterprise:

This business model is resistant to change and operates according to the status quo in the hopes that the good times will return. These institutions represent the banking hours culture.

### **SLOW**

Institutions operating according to economic cycle (good when times are good, bad when times are bad) that externalize their business outcomes:

This business model uses mass marketing, mimics competition movement, and is focused on finding the silver bullet within profitability solutions. These institutions represent the sales culture.

### **GO**

Institutions operating according to information and analytics:

This business model seeks to understand its place in the market and executes incremental steps in an overachieving strategy to be ever-changing and achieve long-term profitability. These institutions represent the profitability culture.