

Performance Measurement for Improved Profitability

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What's your Strategic Plan?

- Acquire new households
- Cross-sell new and existing customers a full product range
- Reduce transaction volume from traditional branches
- Build brand image and awareness
- Provide enhanced convenience to existing customers

What's your Revenue Plan?

- Acquire new households
- Cross-sell new and existing households a full range of products

Deposits Are the Profit Stars in Retail

- Drivers of consumer profits:
 - 87% from core deposits (checking, savings, MMDA, CDs)
 - 8% from loans
 - 5% from securities, trust, and insurance
- Small business profits drivers:
 - 90% from core deposits

Source: First Manhattan Consulting Group

HARVARD BUSINESS SCHOOL PRESS

PROFIT FROM THE CORE

**GROWTH STRATEGY IN
AN ERA OF TURBULENCE**



CHRIS ZOOK
WITH JAMES ALLEN

BAIN & COMPANY, INC.

“In our 10-year study of 1,854 public companies from the 7th largest industrial countries, only 9% achieved their bottom-end growth targets despite one of the greatest economic booms in business history”

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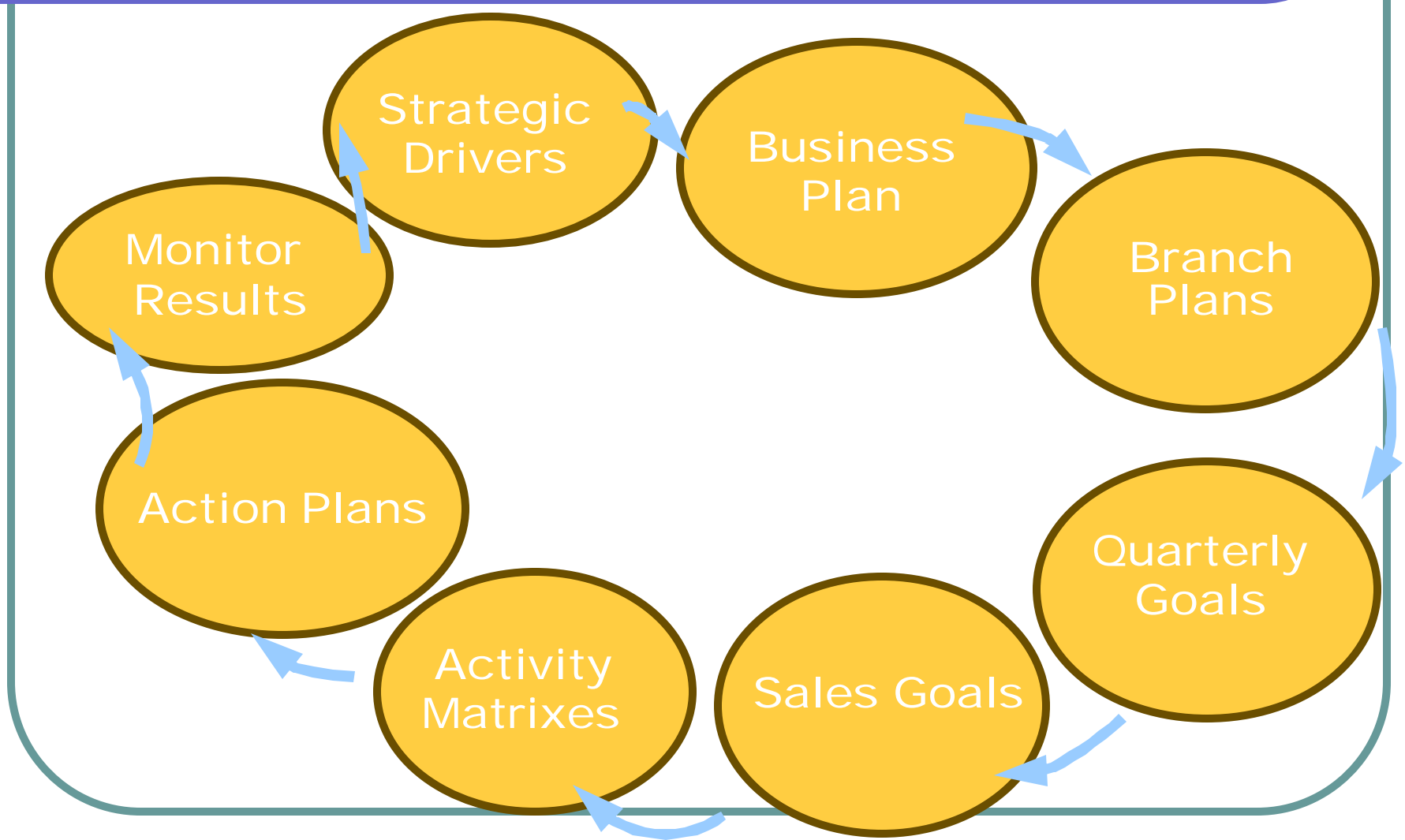
Long term winners narrow their focus instead of widening it.

Winning companies showed disciplined thinking.

Profitably growing companies tapped the full potential of the core business.

Companies that underexploited their core failed to appreciate the importance of their investment.

The In-Store Profitability Chain



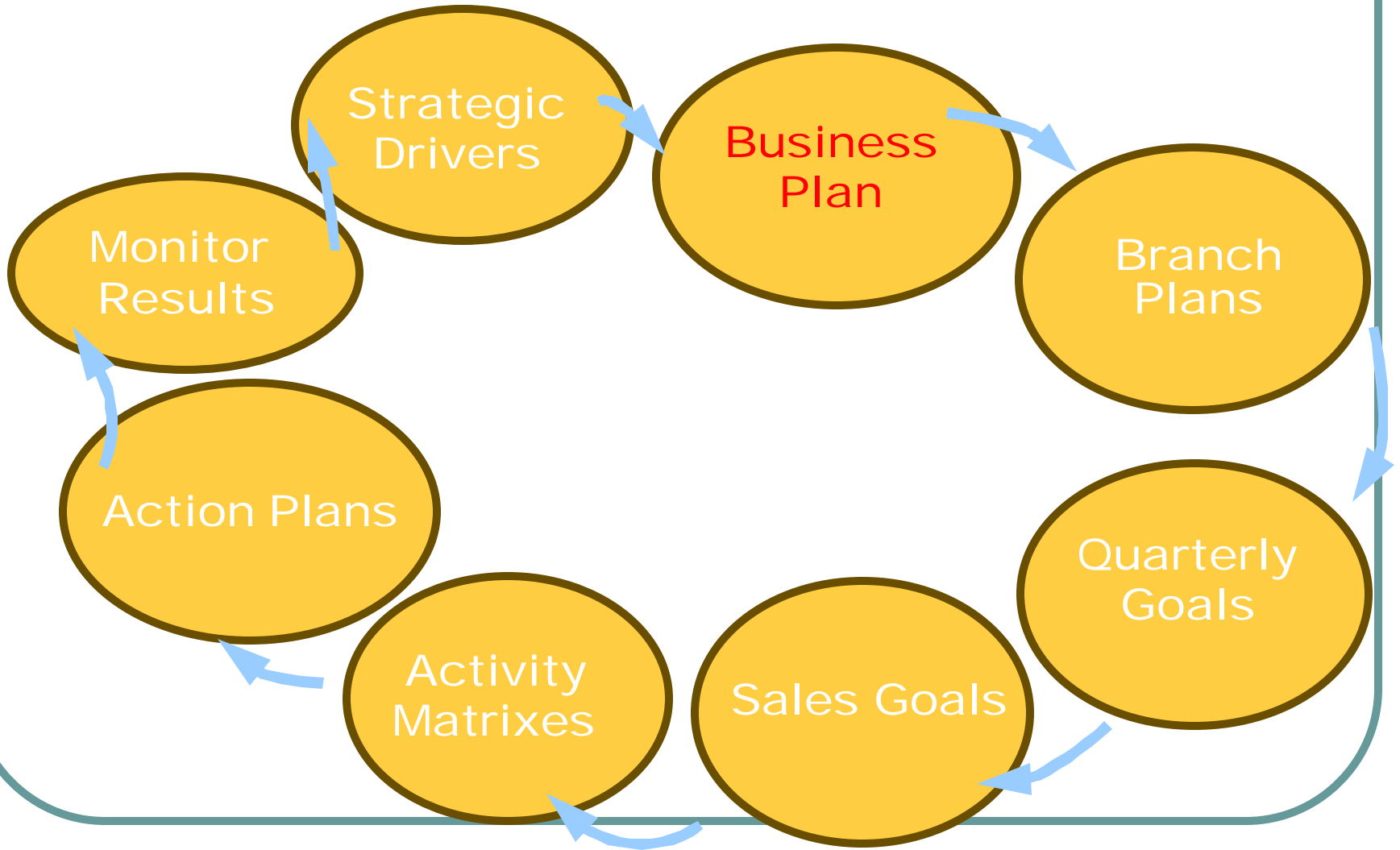
The In-Store Profitability Chain



Strategic Drivers

- **Store Shoppers**
 - Acquire primary checking accounts
 - Cross-sell direct deposit, on-line, debit
 - Develop long-term relationship for further product sales
- **Current Bank Customers**
 - Cross-sell services
 - Cross-sell loans, deposits, insurance, investments

The In-Store Profitability Chain

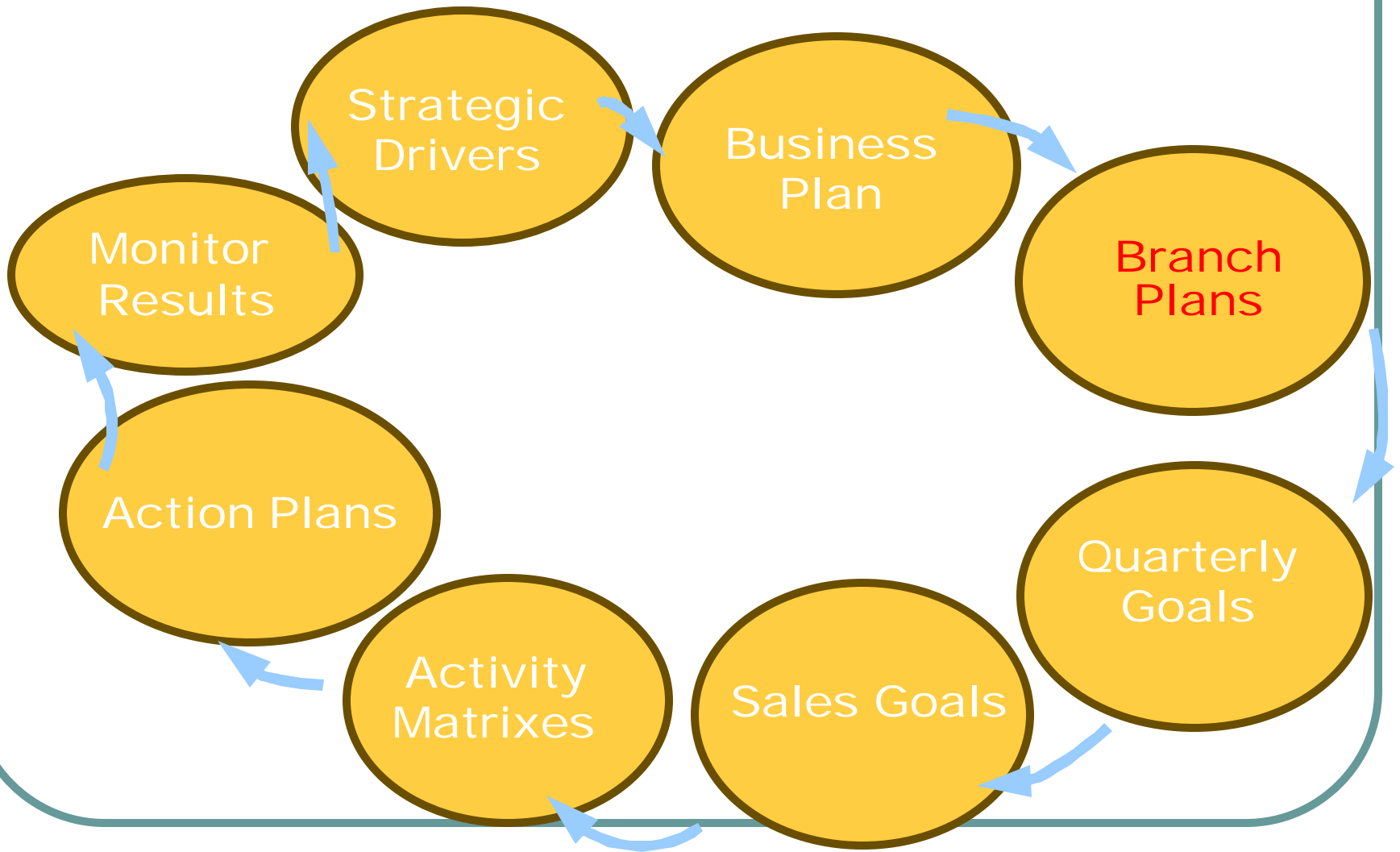


IN STORE MODEL

Balance Sheet and Income Statement

		Year 1	Year 2	Year 3	Year 4	Year 5
AVERAGE TRANSACTION ACCOUNTS						
Checking		400	1,040	1,400	1,640	1,880
Savings		107	319	485	606	688
Market Rate		36	106	162	202	229
TOTAL BALANCES						
Checking	28%	\$525	\$1,610	\$2,506	\$3,178	\$3,850
Savings	10%	\$188	\$575	\$895	\$1,135	\$1,375
Market Rate	25%	\$469	\$1,438	\$2,238	\$2,838	\$3,438
Time Deposit	25%	\$469	\$1,438	\$2,238	\$2,838	\$3,438
Investment	12%	<u>\$225</u>	<u>\$690</u>	<u>\$1,074</u>	<u>\$1,362</u>	<u>\$1,650</u>
	100%	\$1,875	\$5,750	\$8,950	\$11,350	\$13,750
AVERAGE ACCOUNT BALANCE						
Checking		\$1,313	\$1,548	\$1,790	\$1,938	\$2,048
Savings	\$2,000	\$1,745	\$1,802	\$1,844	\$1,873	\$2,000
Market Rate	\$15,000	\$13,088	\$13,513	\$13,831	\$14,044	\$15,000
LOAN ORIGINATION (\$000s)						
		3,000	3,500	4,000	4,000	4,000
INCOME STATEMENT						
REVENUE						
Checking Fees	\$	34,800	\$ 90,480	\$ 121,800	\$ 142,680	\$ 163,560
Branch Service Fees		4,000	10,400	14,000	16,400	18,800
Loan Origination		30,000	35,000	40,000	40,000	40,000
ATM Fees		<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Total Fee Income	\$	128,800	\$ 195,880	\$ 235,800	\$ 259,080	\$ 282,360
Net Interest Income		<u>45,900</u>	<u>140,760</u>	<u>219,096</u>	<u>277,848</u>	<u>336,600</u>
Total Revenue	\$	174,700	\$ 336,640	\$ 454,896	\$ 536,928	\$ 618,960
OPERATING EXPENSE						
Personnel	\$	187,000	\$ 192,610	\$ 198,388	\$ 204,340	\$ 210,470
Direct		46,000	47,380	48,801	50,265	51,773
Internal Services		49,000	50,470	51,984	53,544	55,150
Operating Losses		<u>1,875</u>	<u>5,750</u>	<u>8,950</u>	<u>11,350</u>	<u>13,750</u>
SubTotal	\$	283,875	\$ 296,210	\$ 308,124	\$ 319,499	\$ 331,143
Rent		44,820	44,820	44,820	44,820	44,820
Depreciation		<u>42,557</u>	<u>25,057</u>	<u>25,057</u>	<u>25,057</u>	<u>25,057</u>
Total	\$	371,252	\$ 366,087	\$ 378,001	\$ 389,376	\$ 401,021

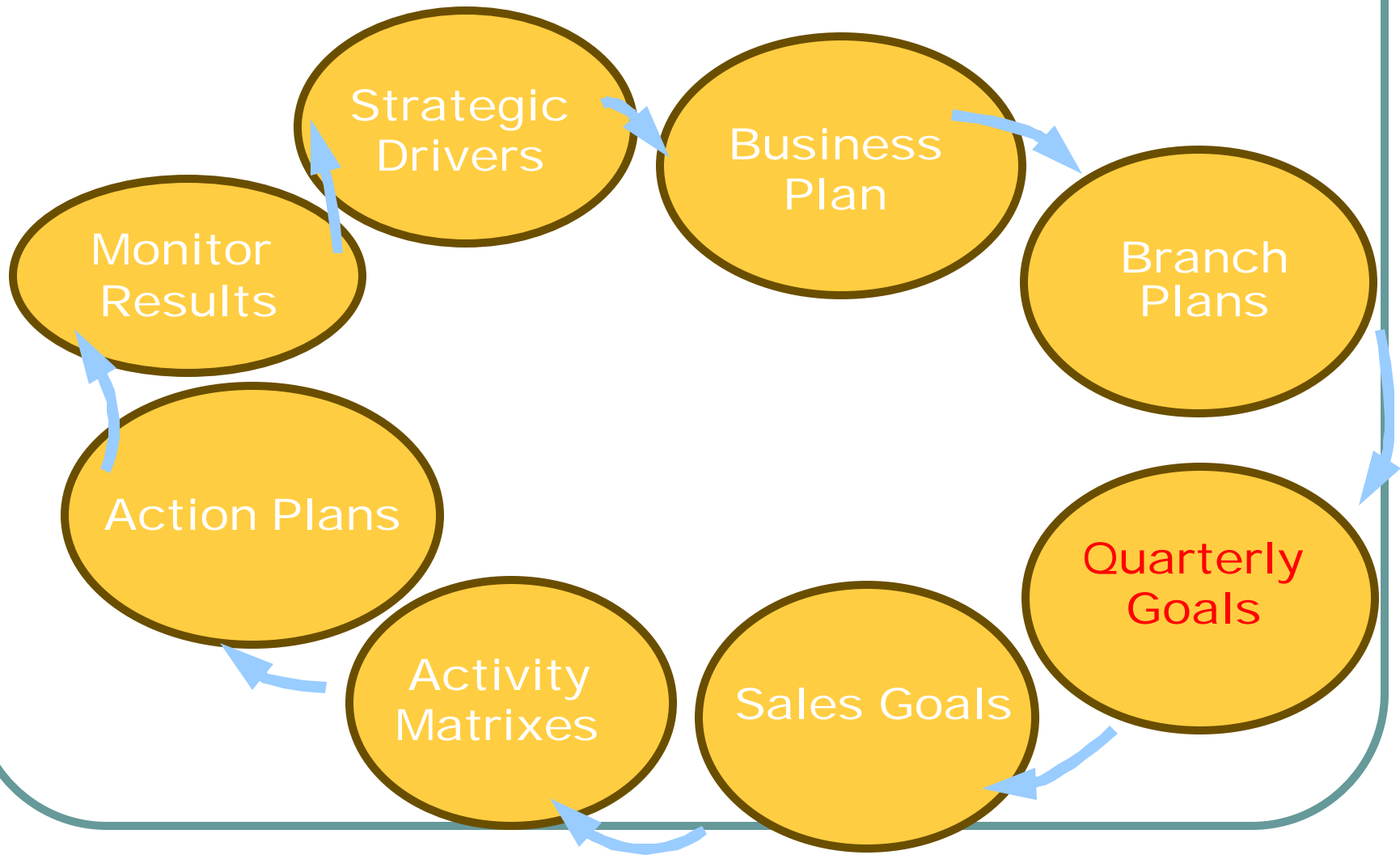
The In-Store Profitability Chain



Core Branch Plans

Year End	DDA	Deposits (\$000s)
1	800	3,750
2	1,280	7,750
3	1,520	10,150
4	1,760	12,550
5	2,000	14,950
6	2,240	17,350
7	2,480	19,750

The In-Store Profitability Chain



Branch Quarterly Goals

Age of Branch	DDA Net Gain	Average Deposits (\$000s)	Loan Originations (\$000s)
>1	200	1,000	750
1-2	200	1,000	750
2-3	150	750	750
3-4	125	750	750
4-5	100	500	750
5+	100	500	750

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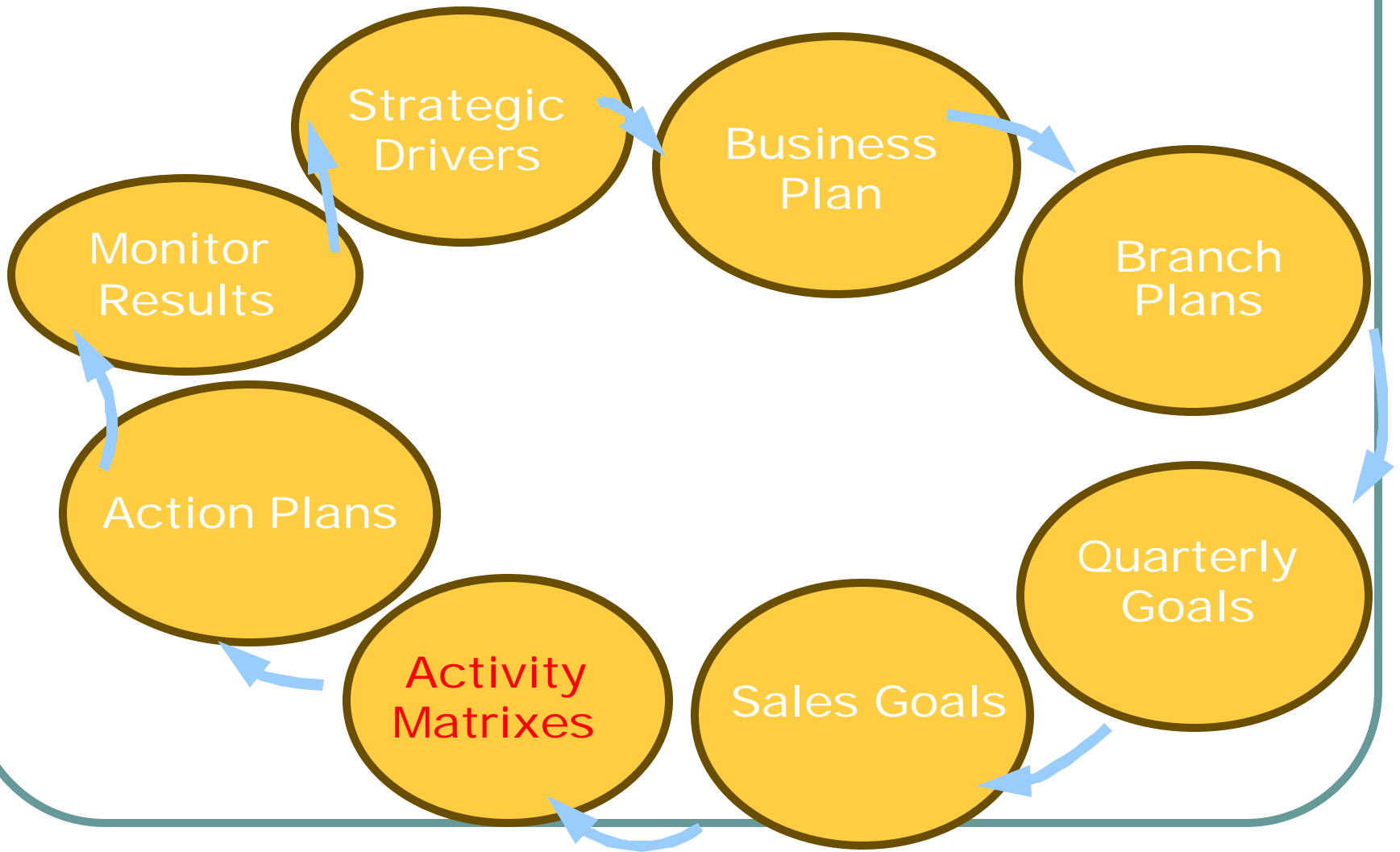
Branch Sales Goals

- Start with branch manager expectations
- Divide branch goals among all staff
 - DDA sales
 - New Account services ratio: debit, on-line, bill pay
 - Equity
 - Auto
 - Savings and Investment
 - Investment referrals
 - Credit card
 - Mortgages

Branch Unit Sales Goals

Product	Branch Quarterly	Branch Weekly	Individual Weekly
DDA Units	240	20	4
Services ratio	2.5	na	na
Consumer and Mortgage Loans	48	4	1
Savings and Investments	144	12	3
Auto	12	1	.25
Credit Card	96	8	2
Referrals	48	4	1

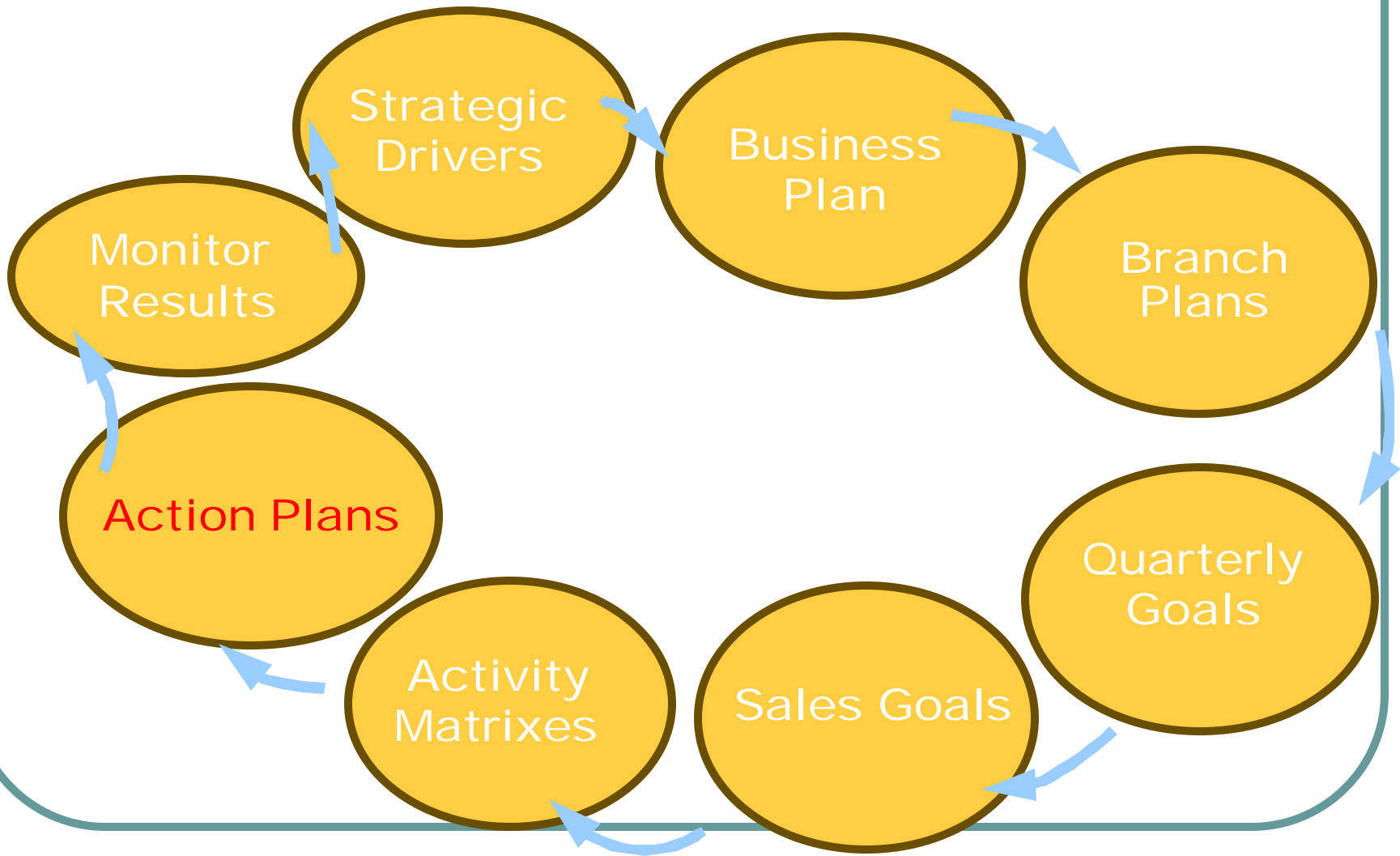
The In-Store Profitability Chain



Daily/On-Going	Weekly	Monthly	Bimester
<ol style="list-style-type: none"> 1. Review branch sales and service results daily, and send to Zone Manager and Executive Manager. Informally observe/coach staff daily. 2. Informally recognize each staff member for successful sales and service results and/or activities at least once per week. 3. Conduct brief daily sales meetings with staff before and /or after hours. 4. Ensure that all staff rotates to kiosks as scheduled. 5. Proactively plan and implement branch customer promotion and sales activities as agreed to. 6. Communicate sales success stories to Zone Managers via e-mail. 7. Ensure that individual results are compiled at the end of each day. Discuss the results and activities briefly (2-3 min.) with sales staff, rotating the discussion. 8. Ensure that branch is clean and well merchandised. 9. Spend at least 75% of time at teller line or sales desk area to observe customer interaction and to lead by example. 10. Review client contact process and results. 	<ol style="list-style-type: none"> 1. Prepare weekly action plan. 2. Conduct weekly sales and service meetings. Topics to be covered: Sales production, service results, retention results, review of objections presented in last week and review of the solutions, key success stories, and recognition. Build an action plan based upon topics and strategies discussed. 1. Participate actively and constructively during biweekly or monthly Zone Sales Meetings. Prepare to discuss the following topics: <ul style="list-style-type: none"> -sales production results -best practices -service results -retention results -operational integrity -other topics as assigned 1. Prepare for and conduct coaching sessions with 25% of branch staff weekly (meet with each staff member at least monthly). Initiate counseling as required. 2. Observe each staff member interact with a customer at least once per week and provide feedback. 3. Analyze sales deficiencies and plan “Focus Products” for the upcoming week. 4. Post sales results by individuals weekly. 	<ol style="list-style-type: none"> 1. Prepare for meeting/coaching session with Zone Manager as directed monthly. Bring appropriate branch documents as requested. 2. Recognize the Top Employee of the Month. 3. Shop local competitive locations observing merchandising promotions, campaigns, customer service, and general morale. Discuss findings with staff and Zone Manager. 4. Work with Human Resources on hiring needs, interviewing and selecting employees as required. 5. Ensure daily operating procedures are followed, including ATM handling, opening and closing procedures, security procedures, etc. 	<ol style="list-style-type: none"> 1. Schedule a meeting with Zone Manager to review the branch sales plan, progress toward branch and individual sales goals, and progress of action plans. 2. Conduct a Focused Coaching Session with each seller to review progress toward individual sales and service goals and review commitments made from previous Focused Coaching session. 3. Prepare for and conduct annual job review with each staff member. 4. Prepare for and actively participate in annual job review. Identify and communicate self-development and training needs to the Zone Manager (<i>annually</i>). 5. Allocate individual sales performance goals to staff.

Daily/On-Going	Weekly	Monthly	Bimester/Quadrimester
<p>1.Reach individual sales goals by building a relationship with each customer (<i>daily</i>).</p> <ul style="list-style-type: none"> •Create interest. •Explore needs with customer. •Recommend actions.needs. •Obtain agreement. •Determine next steps. •Ask for a referral. <p>2.Establish rapport with each customer using the standards: Acknowledge Customer’s Presence, Smile, Make Eye Contact, Thank Customer for Waiting, Use Customer’s Name, Thank Customer for their Business.</p> <p>3.Use every customer interaction as an opportunity to educate and migrate customer to appropriate delivery channel(s).</p> <p>4.Maintain customer-focused, good communications with sales team members, store employees, and product specialists.</p> <p>5.Develop and implement customer promotions and sales activities as agreed to.</p> <p>6.Review and calculate daily results verses weekly/monthly/bimester. Plan and take appropriate actions steps to adjust sales activity to meet expectations.</p> <p>7.Initiate customer interaction through kiosk sales and telemarketing. Conduct follow-up calls using Cross-sell Binder and leads generated.</p> <p>8.Ensure that all customer transactions are handled timely and accurately according to guidelines; and that cash and security procedures are followed.</p>	<p>1.Build an action plan based upon topics and strategies discussed at sales meetings.</p>	<p>1.Prepare for focused coaching with Branch Manager as directed monthly.</p> <p>1.Prepare for formal customer interaction observation by Branch Manager followed by coaching session.</p>	<p>1.Commit to sales and service objectives assigned and discussed with your Branch Manager.</p> <p>1.Shop and monitor competition and report findings to branch staff.</p>

The In-Store Profitability Chain



BPI: In-Store Banking Focused Coaching Session

Name: _____

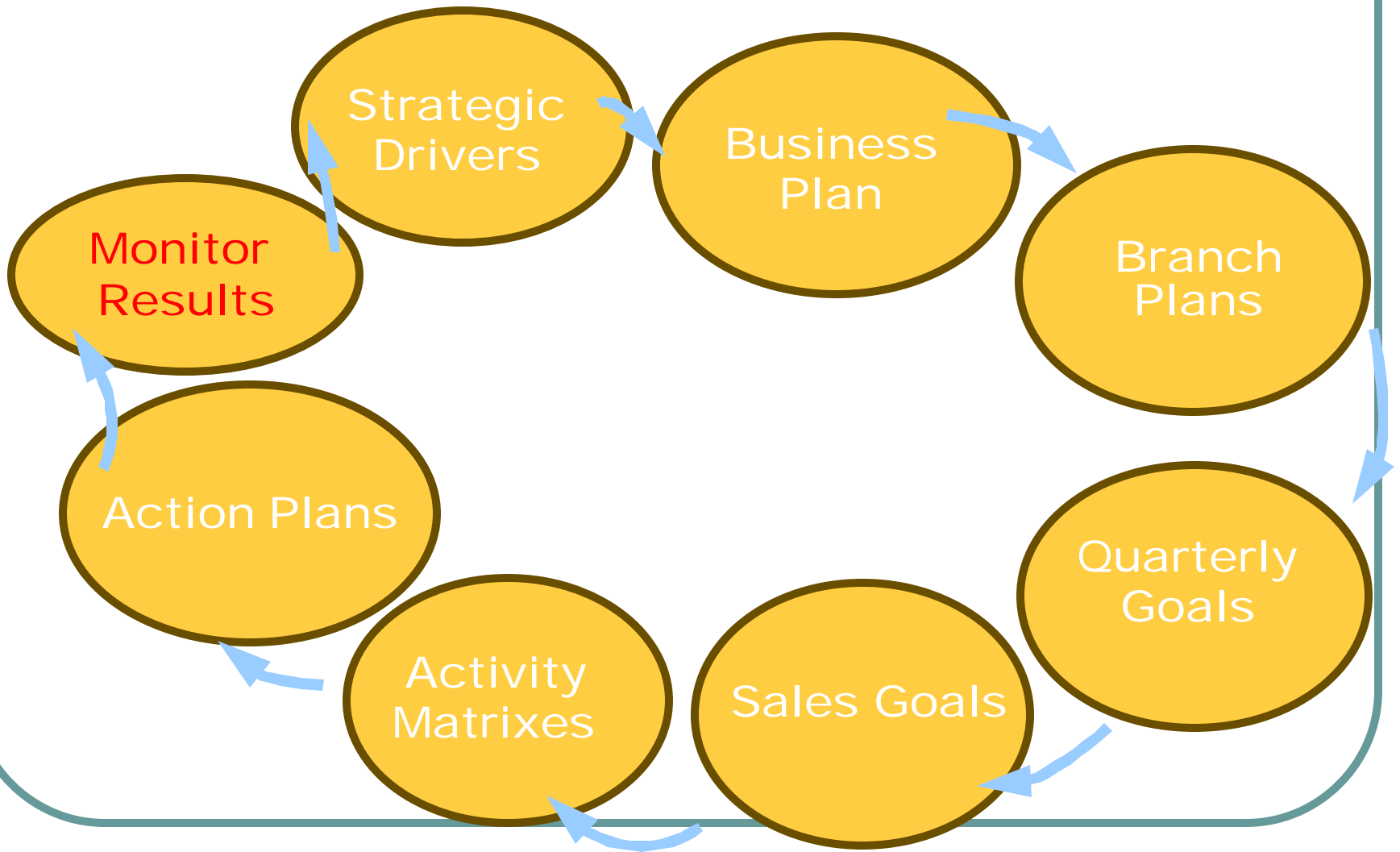
Branch: _____

Date: _____

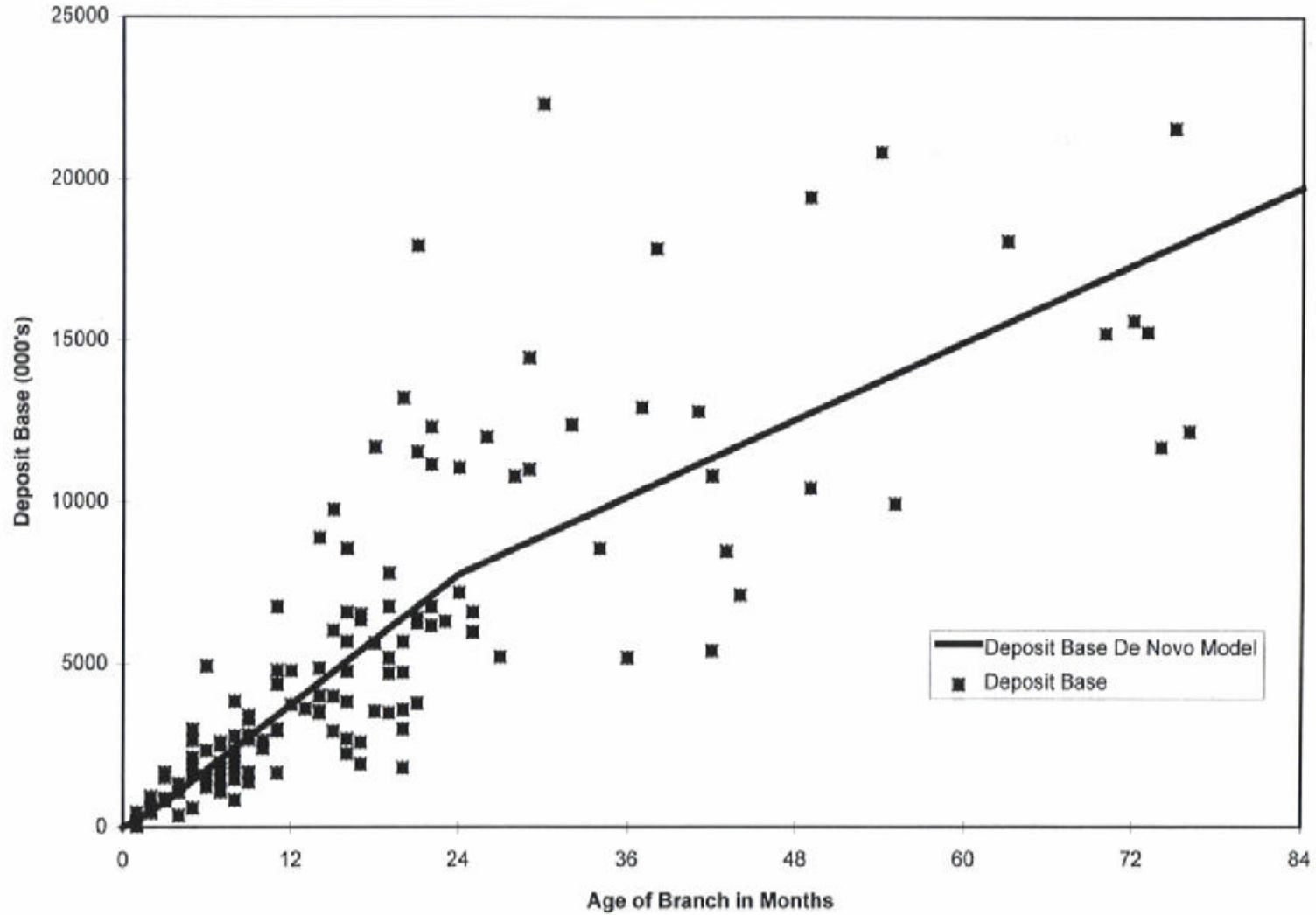
OBJECTIVES	Objective	Achieved			
Visa Universo Credit Card Proposals				<i>Branch Rank (Overall)</i>	
Value of Mortgages Booked					
CPV and other Credits				<i>Individual Rank</i>	
Automobile Credit					
Number of New Accounts				<i>Percent Objectives (Overall)</i>	
DP + DO					
Balance Growth					

Activity	Planned Activities for Past Month	Actual Activities for Past Month	Plans for Next Month
Kiosk Sales ATM Sales Product Focus			
Sales Desk / Teller Area Product Focus			
Telemarketin g # of Calls Product Focus			
Other Product Focus			

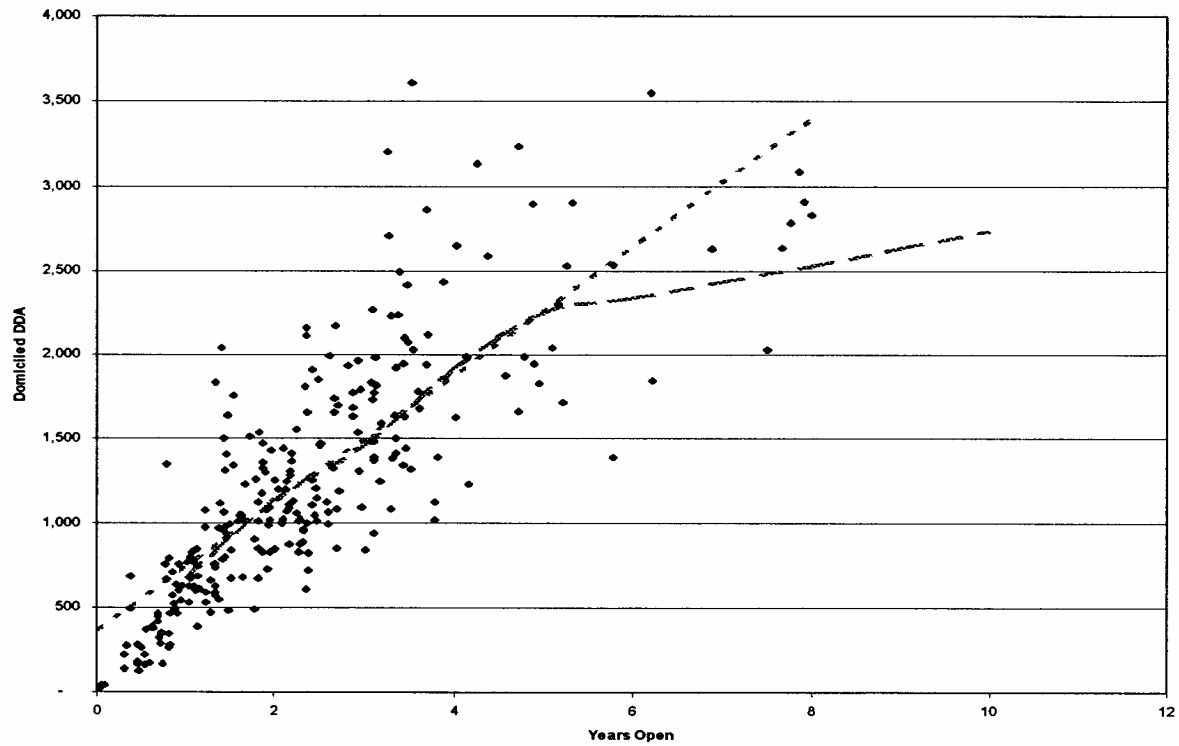
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Performance vs. De Novo Model Deposit Base



Performance vs. De Novo Model DDA Growth



Monitor Results

- Daily reporting
 - Voice mail
 - Quality prospects
 - Activity management
- Weekly sales tracking
 - Stacked ranking by same age offices
 - Stacked ranking by employees by job classification
- Backroom recognition boards
- Daily average balance growth
- Monthly loan and deposit growth in relation to peers

Evolve the Strategy

- Adjust strategy based on results
- Use recognition and compensation to reinforce the results
- Keep the business plan simple and consistent
- Focus on daily execution
- What gets talked about gets done

Aim High

“In most companies, the majority of individuals believe there is some preordained, and typically uninspiring ‘industry’ growth rate. Growing as fast as one’s mediocre peers is deemed good enough.”

Gary Hamel
Leading the Revolution