

Current Myths with Regard to Account, Customer & Relationship Profitability

• MYTH: IT TAKES YEARS TO SET UP THE PROCESS.

REALITY: Calculating customer profitability for the first time takes 16 to 20 weeks, assuming you have an expert. On your own, without experienced resources, it could take about three times that.

• MYTH: YOU DO A PROFITABILITY ANALYSIS JUST ONCE A YEAR.

REALITY: For profitability analysis to be useful, you must make a commitment to value your customers monthly and publish results at least quarterly.

• MYTH: YOU CAN DO A PROFITABILITY ANALYSIS ALONE.

REALITY: Teamwork is critical, and the process must have buy-in from the top. Systems, finance, marketing and retail line management must work together to make it happen. It absolutely must be a coordinated effort.

• MYTH: CONSUMER INFORMATION REPLACES PRODUCT INFORMATION.

REALITY: Understanding customer profitability is a new level of information that enhances your knowledge in other areas. It does not replace product profitability - it's critical to know both.

• MYTH: A PROFITABILITY SYSTEM IS THE ANSWER.

REALITY: Profitability systems are critical for working with the data, but their answers are only as good as the data. Available data fields, costing, funds transfer pricing, formulas and smoothing determine the accuracy.

• MYTH: PROFITABILITY IS EVERYTHING.

REALITY: You need to pay attention to market forces and customer needs. If you rely solely on profitability data, you'll miss the mark. For example, accounts with high balances tend to yield more profit. But if you offer high-balance accounts at branches where the average balance criteria can't be met, don't plan on selling too many of them.

• MYTH: IN-PERSON CUSTOMERS MAKE ONLY A FEW WITHDRAWALS AND PAYMENT TRANSACTIONS A YEAR.

REALITY: The average retail banking customer makes more than 250 of these types of transactions a year.

• MYTH: CROSS-SELL TRANSLATES INTO INCREASED PROFIT.

REALITY: Not every account is profitable. In some cases selling an additional service to a customer may actually decrease the overall relationship profitability.

• MYTH: CUSTOMERS TEND TO USE ATMS FOR WITHDRAWALS AT THEIR OWN BANK.

REALITY: The opposite is true - ATM cardholders use an ATM at a bank other than their own more frequently than they use their own institution's ATM for withdrawals.

• MYTH: CDS ARE MORE PROFITABLE FOR BANKS THAN CHECKING ACCOUNTS.

REALITY: Checking accounts, which usually have fees as a primary source of income in addition to spread, are more profitable than CDs, which generate income largely from interest spread.