VISA
COMMERCIAL

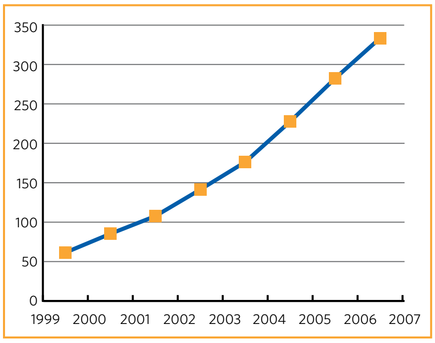
Best Practices for Maximizing Commercial Card Program Performance

Introduction

The volume of business-to-business payments being made with cards has been growing considerably faster than consumer card payments in recent years. Global volume growth on Visa commercial cards reached 26 percent in 2006, compared to 15 percent for consumer cards. The growth and profit potential of commercial cards has caught the attention of many financial institutions. An increasing number of member financial institutions are also finding that Visa Commercial card products help strengthen relationships with important corporate clients.

Visa Commercial payment solutions provide functionality and business-critical information that bring unique value to the business-to-business payment process. To illustrate the full value of Visa Commercial products, Visa has worked with payments experts Global Vision Group to conduct functional cost studies on banks' commercial card operations. Through these studies, Visa and Global Vision have observed some of the practices that allow leading issuers to maximize returns by balancing expense management with client retention and new business growth. This paper highlights practices of leading issuers for managing the two primary Visa Commercial products – Visa Purchasing and Visa Corporate. For each best practice, specific metrics that managers can monitor to measure performance in a given area are provided.

Figure 1: Visa Commercial Card and Consumer Card Growth



The information in this document is based on observations of the card operations of dozens of Visa member banks over the past 15 years. Nearly all member banks studied have been mature players in the Visa commercial card business and are based in developed regions within North America, Asia-Pacific and Latin America.

Best Practice Overview

Visa's functional cost studies with Visa Commercial issuers revealed the following eight key best practices that commercial issuers can apply to maximize the performance of commercial portfolios:

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Best Practice 1: Align human resources to enhance visibility and control.

A bank's organizational structure, including reporting lines and incentive structures, plays an important role in how commercial card profitability is managed. Issuers can benefit from evaluating their organizational structures in the context of the bank's overall product mix and available resources. By revisiting organizational structure periodically, issuers can take advantage of opportunities for improvement that arise as their card programs mature.

1. Situate the commercial card operation within the organization according to the size, maturity and objectives of the commercial card program.

In some instances Visa Corporate and Visa Purchasing program offices report through the corporate banking or cash management division of the bank, not the card division. This reporting structure strengthens banking relationships with commercial clients, which is an important factor when focusing on client retention.

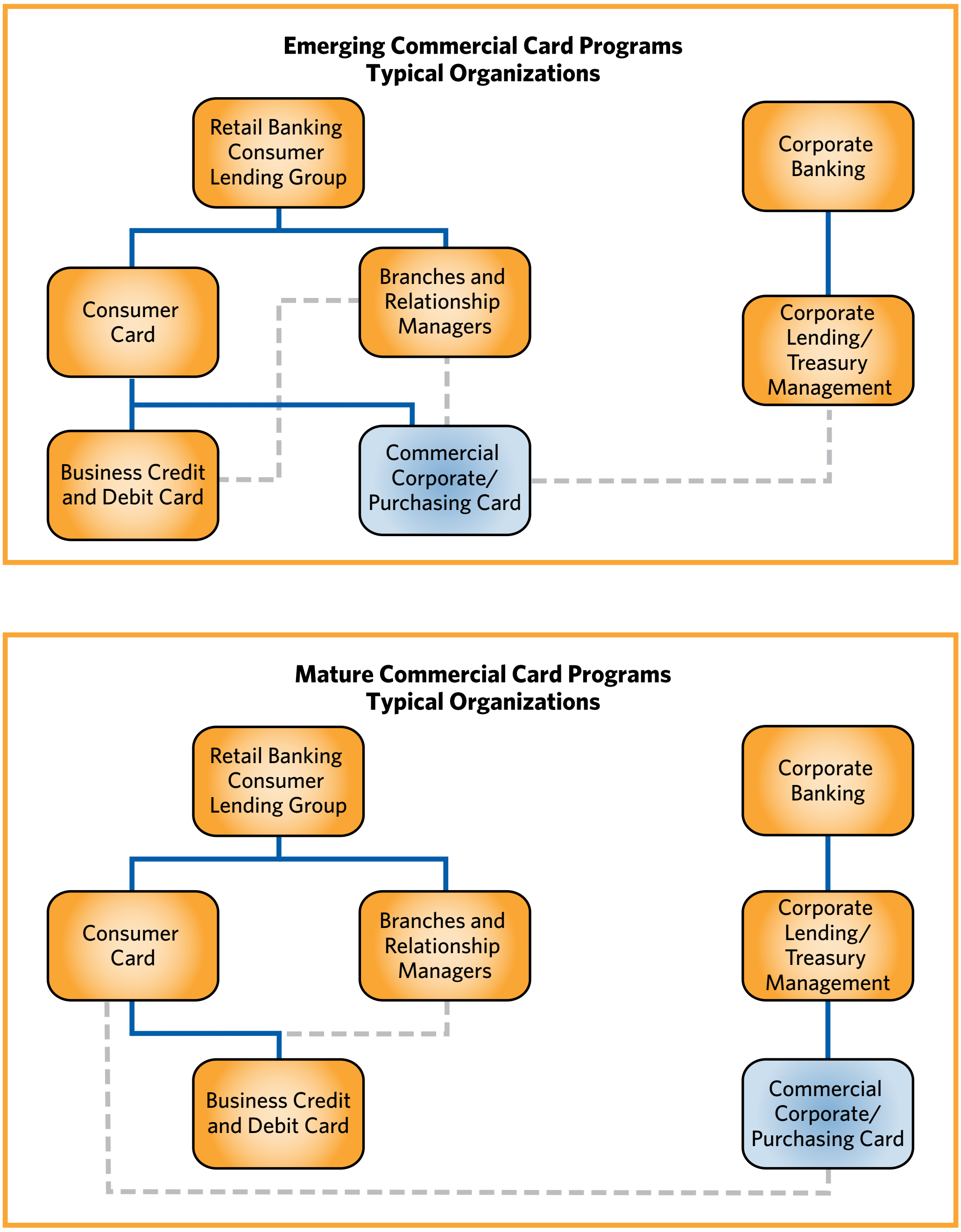
Many large issuers with mature commercial card programs have created a separate commercial card division. This can give the division flexibility to focus on independent sales and growth strategies, and make quicker decisions.

For banks that are new to the commercial card business, it is often practical to initiate a commercial card program by offering only a small business product that is managed within the card division. This allows the bank to take advantage of consumer sales and marketing resources to generate new business. As the average client size grows, the bank can then develop an independent corporate and purchasing card division.

2. Establish matrix organizational structures to encourage collaboration.

- Lack of visibility and control over key performance drivers and lack of shared performance objectives can occur if the right reporting lines are not established. Issuers have addressed these challenges by forming matrix organizational structures that promote collaboration among division managers to define standards for activities of mutual interest such as sales performance targets, customer service levels, complaint handling and MIS reporting.
- Figure 2 shows two examples of commercial card organizational structures used by leading issuers. The commercial card entity refers to the card program office. Shared services, such as card production, payment processing, fraud management, etc., usually report through the program management office but are also accountable to other entities within the organization.

Figure 2: Two Common Commercial Card Organizational Structures


Emerging Commercial Card Programs
Typical Organizations
Retail Banking Consumer Lending Group
Consumer Card
Branches and Relationship Managers
Business Credit and Debit Card
Commercial Corporate/ Purchasing Card
Corporate Banking
Corporate Lending/ Treasury Management
Mature Commercial Card Programs
Typical Organizations
Retail Banking Consumer Lending Group
Consumer Card
Branches and Relationship Managers
Business Credit and Debit Card
Corporate Banking
Corporate Lending/ Treasury Management
Commercial Corporate/ Purchasing Card

Best Practice 2: Manage program performance against a commercial card P&L that provides an independent and holistic view.

Managing a commercial card program to the bottom line requires a fully loaded P&L, which isolates and captures all costs and revenues associated with the commercial card portfolio. Creating a fully loaded P&L requires collaboration between the card program manager and other areas within the bank.

1. For card operations that support both consumer and commercial products, allocate the appropriate proportion of costs to commercial cards and reflect them in the commercial card P&L.

In most cases, certain card operational functions are shared between commercial and consumer card products. As a result, associated costs tend to be allocated and reported as a single, combined figure. An independent commercial card P&L entails evaluating the proportion of revenues and allocation of resources that are dedicated to the commercial card program.

2. For functions that support both card and non-card products, allocate a portion of the costs to commercial cards and include them in the P&L.

A fully loaded P&L must include costs incurred for shared activities such as fraud prevention, underwriting, customer service, credit risk policy development and branch activities, as well as losses, transfers from other divisions of the bank and a share of overhead. This holistic view of commercial card profitability enables managers to make better pricing and strategic decisions about the business without underestimating the actual cost to the bank of acquiring and servicing corporate clients.

3. Use a collaborative and recurring process to design financial and performance reporting.

Involve management staff from the program office and shared services divisions across the financial institution. A third-party provider, in-house development area or ready-made product may be engaged to combine key information from multiple P&Ls into a common reporting database. Revisit the reporting as the organization grows and changes. Mergers, new product introductions and changes in support systems are examples of changes that are likely to affect the way management information is captured and reported.

Case Study – Leveraging Activity-Based Costing to Build a Commercial Card P&L

Based on its most recent activity-based costing (ABC) 16 months ago, a Visa commercial card issuer estimated the profitability generated by its purchasing card product at $150 per active account per year. The ABC exercise determined that purchasing card issuing costs to the bank were $2.68 per active account. However, during the period since the ABC allocations were conducted, the card order fulfillment group adopted the policy of mailing all replacement cards via overnight delivery. This resulted in a 300 percent increase in card issuing costs on a portion of active accounts. In addition, organizational changes resulted in the creation of a new product development function that was not in place during the ABC allocation exercise. Also within the last 16 months, the Bank underwent a system conversion in order to improve its client information reporting offering, resulting in a spike in expenses and a new set of activities to manage reporting services on an ongoing basis – costs that were not represented by the ABC exercise. These circumstances resulted in significant discrepancies between the financial results reported on the ABC basis and the actual financial performance of the purchasing card program.

When a purchasing card P&L was created, the Bank discovered that the profitability of its purchasing card portfolio was only $43 per active account. Using the results of ABC as direct inputs into the commercial card P&L without adjusting for current practices can result in severe inaccuracies, potentially including a gross overstatement of profitability.

4. Look to the highest cost contributors for opportunities to economize, and continuously seek best practices to help balance cost management with growth and customer satisfaction objectives in these areas.

Based on Visa cost studies, nearly half of an average bank's commercial card program expenses are associated with functions directly related to the card business, referred to in Figure 3 as direct expenses. The business functions responsible for the largest individual contributions to direct expenses generally represent the best targets for efficiency savings. However, there is no evidence to suggest any "optimal" distribution of expenses. Ideally, relatively high direct expense contributions by specific functions should reflect the bank's strategic investment in those areas to drive growth or to add value to customers.

Figure 3: Breakdown of Commercial Card Expenses

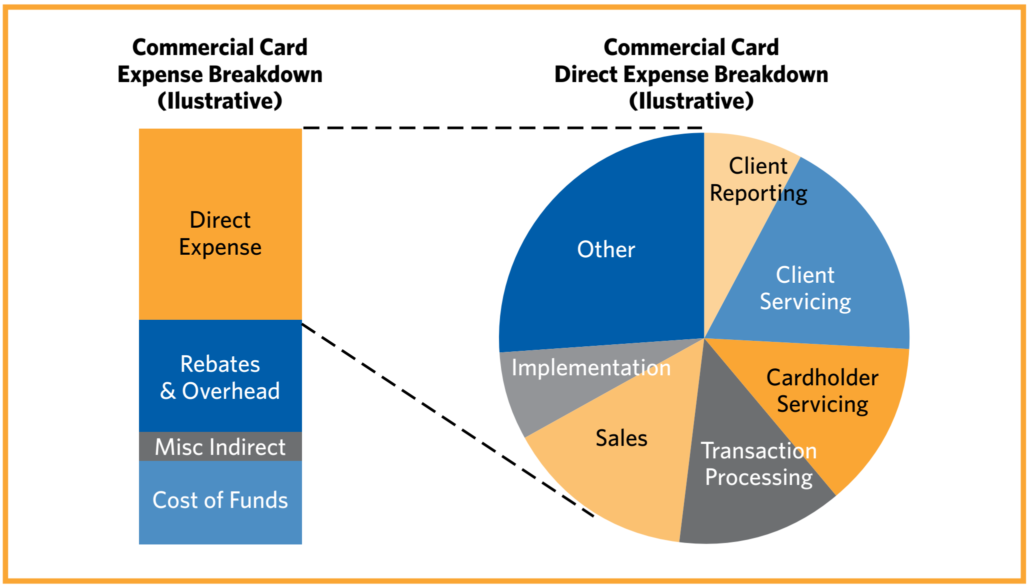


Figure 3 shows the approximate distribution of commercial card expense categories for a typical issuer and the top expense-incurring functions. These include sales, implementation, client and cardholder servicing and client reporting. Other functions, which each contribute smaller proportions of overall expenses, include product development, underwriting, credit risk management, card issuing, billing, payment processing, account management, collections, fraud management and program management.

- Indirect expenses, which comprise at least half of commercial card program expenses, are driven largely by factors outside the control of the program manager. However, it is prudent for banks to forecast these expenses and to monitor their impact on the commercial card P&L.

Cost of funds is one major indirect expense that can be influenced by the commercial card program to some degree. Cost of funds is mostly driven by the interest rate effective in the market, but is also affected by the average number of days for clients and cardholders to repay outstanding balances. The commercial card program manager can help drive down the cost of funds by establishing and enforcing repayment terms with clients.

Best Practice 3: Develop the sales team and establish incentives across the organization to maximize long- term growth.

Superior performance within the commercial card sales function relies on management's commitment to develop the sales team according to market characteristics and the bank's strategic objectives. Sales performance can also be enhanced by a well-aligned compensation package. A universal reality is that staff will only sell commercial card products if they're trained and rewarded for doing so. This concept applies to the sales team and everyone else in a position to generate leads, including staff in treasury, customer service and elsewhere in the organization. Well-constructed incentives are a powerful tool for encouraging sales of commercial card products that are profitable over the longer term.

1. **Implement an incentive plan that expands rewards beyond the commercial card sales team to all employees who directly or indirectly participate in a program's success.**
    - Choose the most appropriate criteria on which to define sales incentives to promote long-term profitability of new clients. For example, sales employees are rewarded often for new client growth. By introducing additional incentives for cards activated, managers can encourage sales of commercial card products that are more profitable over the long term.
    - For staff outside the commercial card organization, award incentives for supplying quality leads to commercial card sales staff. Incentives that are awarded for card accounts booked as a result of leads can motivate employees to spend more time ensuring the quality of a lead before passing it on.
    - In many leading commercial banking organizations, the corporate relationship manager (RM) is compensated for the overall volume of the bank's business with a given client, including corporate and purchasing card products as well as other products and services. This motivates the RM to ensure that the bank is included on corporate clients' RFP lists and to send leads to the most appropriate place within the bank. In leading banks, the RM conducts regular client-level reviews to assess opportunities to increase spending and optimize the card program.

2. Take full advantage of internally generated leads. A high rate of internally generated leads can reduce the need for cold calling, which can be time-consuming and inefficient.

- To identify commercial card sales opportunities within the bank's current customer base, monitor client statistics and establish thresholds that define customer segments. For example, leading issuers separate small business card prospects from commercial card prospects according to spend thresholds and/or number of cards. When a client's spending surpasses a given threshold, employees are instructed to lead clients to adopt a commercial card product.
- Match products to your market segments to maximize market coverage. Many issuers initiate relationships with small businesses during the early growth stage and transition them to a commercial card product at a later time. A very low average number of card accounts per commercial card client may represent an opportunity for the bank to offer a small business product.
- Banks should encourage two-way cross-selling with treasury and small business products. Structure incentives to maximize appropriate internal leads, even if it means replacing one product with another. For example, do not inadvertently penalize small business card sales staff for encouraging a client to migrate to a corporate card product, if that product is more suitable for the client's needs.
- Strive to design card features and pricing so that the product that brings the greatest value to a client is also the most profitable for the issuer to offer that client. The right product features and pricing mix is the basis for cooperation between sales teams across divisions without fear of "cannibalizing" another product's business.

3. Invest in staff specialization based on the size of your organization and the diversity of your market.

- In larger organizations, establish a dedicated commercial card sales team to maximize new client growth.
- If the size of the sales team allows, specialize at the market segment level established by the bank. Segments are typically large-market, middle-market, emerging business and government/public sector. Segment specialists have proven to be particularly successful because they are better able to respond to the differences in client needs, which warrant individual sales approaches for each segment.
- In smaller organizations, define a broad scope for the sales function to optimize resources and promote cross-training. In smaller banks, the commercial card sales group is often shared with cash management and other business products and services, such as deposit products, merchant acquiring, bill payment and supplier billing. A cross-trained sales team can help mitigate the risks if and when commercial card sales specialists leave the organization.

4. Identify target segments with a consideration for all the factors that contribute to a client’s profitability for the bank.

In mature markets, commercial card issuers often attempt to differentiate themselves by becoming leaders in specific segments, and it is important to understand the advantages and drawbacks of specialization in any commercial segment. For example, issuers have reported that government prospects tend to be associated with longer sales cycles. However, factors such as contract length, may outweigh this disadvantage. As another example, large multinational companies tend to require a “high-touch” sales process and a larger travel budget. Positive trade-offs to targeting the multinational segment include potentially higher volume and higher card growth.

Metrics to Track

- Efficiency of sales staff, measured as card accounts that are directly associated with new company card account per salesperson (or full-time equivalent [FTE]) per month.
- Efficiency of sales function, measured as new client card accounts per currency unit of sales expense and sales expense per new client account.
- Effectiveness of sales staff, measured as new volume growth associated with new companies per sales FTE.
- Effectiveness of sales function, measured as new volume growth associated with new companies per currency unit of sales expense.

Best Practice 4: Invest selectively in custom implementation support.

A high-performing implementation function relies on the ability to facilitate commercial card implementations of varying levels of complexity with a minimum of time and cost. The complexity of an implementation varies with the size of the client, the reporting tools used, and the degree of integration with corporate financial and operational systems such as Enterprise Resource Planning, expense reporting, travel management and eProcurement. The cost of a client implementation is driven largely by the level of on-site support provided. Selective investments in implementation support can generate returns in the form of high-performing programs, lower post-implementation support costs, and increased customer satisfaction.

1. Develop a detailed implementation plan including a transition process to the client's card program management group.
2. Establish specific criteria for supporting on-site versus remote implementation, based on the degree of customization required, size of program and level of integration. Balance the potential for costs savings against the benefits of providing superior customer service.
3. Utilize tools and resources developed for integrating eProcurement and ERP systems with commercial card systems.
4. Assess effectiveness of implementations in conjunction with client services by tracking the frequency, nature, and severity of client servicing problems raised by new clients shortly after implementation. Use the learnings to enhance implementation procedures and support materials.

Metrics to Track

- Efficiency of implementation staff, measured as implementation FTEs per new client card account per year.
- Efficiency of implementation function, measured as total implementation expense per new client card account per year.
- Use the above metric to compare the efficiencies of on-site implementations with remote implementations. Ensure implementations are of a similar size and complexity.
- New client contact rate, measured as the number of program-related queries per card account for the post-implementation period defined by the bank.

Best Practice 5: Optimize Client Servicing by combining a web-based interface with targeted personalized service.

The client relationship is generally serviced through interface with the client administrator or program manager. Client servicing is sometimes a shared responsibility between the relationship manager and a client servicing manager within the commercial product office. The ability to handle program administrators' requests with a minimal amount of staff time is the basis for an efficient client servicing function. However, cost containment must be balanced with quality of service in order to build loyalty with valued clients.

1. **Structure your client servicing hierarchy based on client needs.**
    - Offer dedicated servicing lines or specialized account managers for selected high-value clients.
    - For other clients, provide client servicing through a call center to better manage staff time.
    - Provide second-level support with adequate technical expertise. Many banks have found that technical issues related to client reporting represent the majority of client queries. Client reporting may warrant its own specialists or even its own help desk number.
2. **Implement a web-based account management solution.** Leading issuers are developing advanced web-based client servicing interfaces to respond to the trend in increasing email queries.
3. **Integrate the client servicing tool with the customer relationship management (CRM) system.** While this may increase systems expenses, CRM-integrated client servicing tools have been found to improve service and expedite issue resolution.

Metrics to Track

- Efficiency of client servicing staff, measured as average cardholder accounts:
    - Per client servicing FTE
    - Per currency unit client servicing expense
- Quality of client servicing, measured using a periodic customer satisfaction survey.

Best Practice 6: Focus on cardholder servicing automation and continuous process improvement to drive down costs and maintain service quality.

A well-run cardholder servicing unit manages the throughput of cardholder calls by resolving queries satisfactorily, as quickly as possible, in a cost-effective manner. The contact rate per active account per month drives the volume of the cardholding servicing workload. While contact rate is outside the scope of the cardholder servicing function, the cardholder servicing manager can play an important role in reducing the contact rate by cooperating with other areas in the bank to manage it. The degree of process automation has a great bearing on the efficiency of the cardholder servicing group.

1. **Take full advantage of technologies to automate the cardholder servicing process and be proactive about ensuring its effectiveness.**
    - Use an automated response unit (ARU) to help route calls and to resolve as many queries electronically as possible. Track top cardholder servicing queries by type to identify needs for ARU enhancements. Where possible, modify ARU scripting and functionality to better address common cardholder issues.
    - Develop a web-based query resolution service to encourage email as an alternative dispute channel.
    - Use imaging systems to help automate the management of dispute documentation.
2. **Manage labor costs by minimizing the amount of specialist staff intervention.**
    - Determine the required working hours for dedicated commercial card support, keeping in mind the time zones of commercial clients. Route after-hours calls to the consumer card group or other areas that can handle emergencies, fraud reports, lost and stolen cards, and authorization blocks.
    - If the volume of disputes is high enough, separate staff functions to reduce the cost of administrative tasks, such as scanning, correspondence, filing, updating terms & conditions, etc.
    - For high-volume queries, consider outsourcing portions of the cardholder servicing function. Choose functions for outsourcing that require lower training and customization, and that have lower cardholder impact. Weigh relative cost savings from outsourcing against relative service quality criteria.

3. Interface regularly with the relationship manager or card program manager to assess service quality to commercial cardholders

- Ensure that customer service representatives (CSRs) are able to quickly and easily recognize queries related to a commercial program.
- Establish service levels for commercial cardholder service. Educate CSRs on the implications of customer service quality for commercial cardholders on the bank's business.
- Track commercial cardholder queries by type and report trends to the relationship manager or card program manager. Work together on strategies to decrease the commercial cardholder contact rate.

Metrics to Track

- Contact rate, measured as cardholder inquiries per active account per month.
- ARU usage rate, measured as the percentage of all calls answered by the ARU.
- Effectiveness of the ARU system, measured as the ARU query resolution rate.
- Efficiency of cardholder servicing function, measured as the total expense per query resolved. This efficiency metric should be tracked across channels and compared, if possible. It is particularly useful to compare efficiencies of live cardholder servicing via telephone versus cardholder servicing using the VRU.
- CSR productivity, measured by calls per CSR per month and average length of call.
- CSR efficiency, measured as average query resolution time of staff-handled queries, by severity.

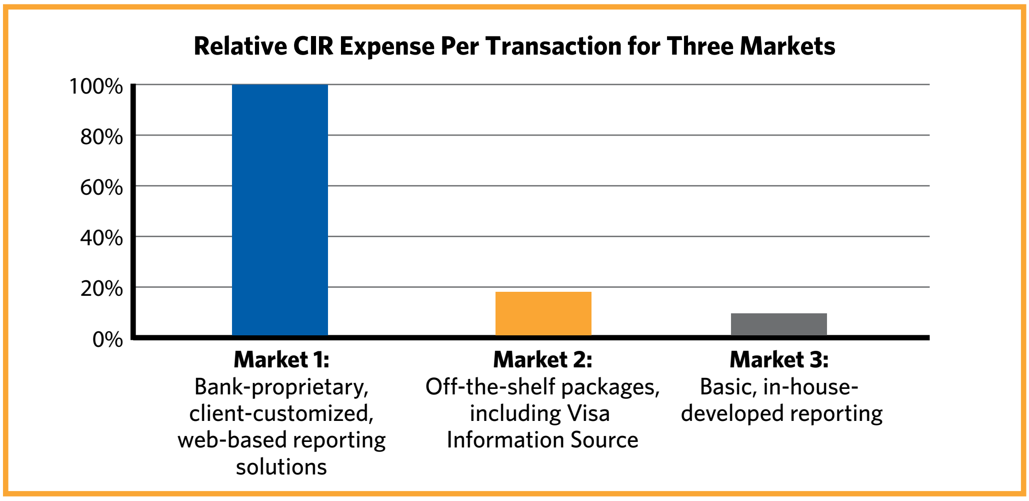
Best Practice 7: Implement a suite of client information reporting solutions that match segment needs.

Commercial card issuers identify client information reporting as one of the key competitive differentiators of their commercial card offering. Reporting packages vary greatly in terms of complexity, degree of customization and integration capabilities. Optimizing the client information reporting function requires a balance between offering the right set of reporting features to meet clients' needs, and keeping costs down. Factors that help drive bank costs down include scale, a streamlined offering and electronic delivery.

Example: Client Information Reporting Standards and Costs

Client Information Reporting (CIR) costs vary widely according to the degree of functionality and complexity associated with the reporting offering. Here is a comparison across three national markets of the average CIR costs per transaction for banks participating in Visa cost studies. In each market, a different standard of CIR product sophistication prevails among large market clients. (The highest CIR expense per transaction is indexed to 100 percent.)

Figure 4: Cost Comparison per Transaction



1. **Create reporting packages based on your existing and target market segments defined by company size, transaction volume and level of sophistication.**
    - Match reporting packages to your clients' expectations. Corporate clients in mature markets expect a high level of support and customized, multi-application reporting solutions with integration capabilities.
    - Ensure that a robust, full-functionality reporting solution is implemented before attempting to capture a new segment, particularly large corporate.
    - For smaller clients, offer a scaled-down reporting solution. Establish tools and processes that facilitate automated implementation. For example, develop a self-installation tool and limit the scope of reporting functionality to applications that lend themselves to self-installation.
2. **Assess the "make-or-buy" decision based on the level of sophistication in the market, since this drives demand for customization.**
    - In highly sophisticated environments where reporting tools are a competitive differentiator, leading issuers have built advanced, web-based reporting modules that can be customized at the client level and even at the cardholder level.
    - Focus on products that are flexible and can be customized across sectors, such as Visa Information Source (VIS).
3. **Be proactive about driving usage of your reporting package to maximize the returns on your investment.**
    - Track client adoption of your reporting solution.
    - Develop materials and training to educate clients on the features and benefits of your reporting package.
    - For each new client, spend time during the sales process assessing the importance of client information reporting and intended applications. Understand the client's back-office environment, including the use of ERP and other business systems.
    - Understand the needs of clients' various internal stakeholders and involve them in the training process. Stakeholders in different parts of the client's organization – for example, finance, travel, procurement, strategic sourcing, accounts payable, and line managers – are likely to be interested in different applications available through your reporting package which may have different reporting requirements.
    - Work with the client to build a schedule to phase in additional reporting applications to encourage full usage.

4. **Invest in a highly trained, specialized support team.**
    - Provide experts in your reporting package to assist with client implementation.
    - Provide training and information to clients about the reporting package during the implementation process.
    - Be prepared to facilitate the process of reporting system integration with ERP, e-Procurement and other related business systems. Alternatively, consider partnering with professional system integrators.
    - Ensure that technical staff is available to address post-implementation problems related to reporting.
5. **Focus on electronic delivery and support tools, such as those offered by Visa through VIS.**

Metrics to Track

- Client adoption of your reporting package, measured as:
    - The percentage of clients subscribing to reporting services
    - The percentage of active accounts associated with subscribing clients
    - The percentage of transactions associated with subscribing clients
- Overall function efficiency, measured as total CIR expense per transaction, including all transactions.
- Investment in client value-add, measured as total CIR expenses:
    - Per subscribing client only
    - Per active account associated with subscribing clients
- Percentage of reports delivered online versus paper.
- Case study demonstrating:
    - The value of segmentation: spend $X on reporting package for the middle market; gain $Y in additional revenue from that segment
    - Importance of data and reporting in winning share - Bank a has X% market share because it spends $X on reporting
    - Ways to customize package to serve multiple segments

Best Practice 8: Assess program profitability using multiple cost and revenue metrics

Managing a commercial card portfolio to the bottom line requires monitoring multiple inter-dependent metrics at the same time. An over-reliance on any one cost or revenue driver without considering the tradeoffs can mislead managers about the actual performance of the portfolio. Secondly, impacting a single performance driver may affect many others and at different times. For example, an investment in new technology could result in increased operating expenses as a percent of volume in the first year, but could lead to an increase in new client accounts after two years, yielding greater overall profitability of the commercial card program in future years. Similarly, investing in a program to increase the active account rate may have the effect of increasing overall volume, but reducing the average number of transactions per active account per month. To effectively use commercial card information to make management decisions, managers should select performance metrics thoughtfully and monitor them regularly in concert to assess program performance.

1. **Determine the most appropriate metric for a given cost or revenue item.**
    - Tracking multiple metrics will help managers assess performance against various objectives. There are many different ways to measure costs and revenues, and they all provide important management information. The table on the following page shows some of the most useful financial metrics related to commercial cards and the advantages of each for analyzing portfolio performance.
2. **Identify Appropriate Benchmarks for Comparison**
    - View costs and profitability against relevant benchmarks to understand their meaning. Ideally, profitability metrics would be compared with those of similar financial institutions in the same market. In the absence of this information, key profitability metrics can be viewed by quarter on a year-over-year basis to observe trends. It is also important to make note of investments made for the purposes of reducing costs or increasing revenue and establish an appropriate expectation for when the returns will begin to accrue to the bottom line.
3. **Use a Profitability Dashboard to Track Key Performance Measures**
    - Many managers find it useful to view key financial metrics graphically in the form of a commercial card dashboard. A dashboard provides a one-stop, high-level view of portfolio profitability that can help managers quickly target areas of focus for improving the bottom line.

Table 1: Commercial Card Program Cost and Revenue Metrics

Metric	How Used	Advantages
Cost Metrics		
Cost per currency unit of retail sales volume (RSV)	Most common metric for most costs	• Easy to calculate • Shows impact of RSV-based performance objectives
Cost per transaction	For transaction-driven expenses such as transaction processing and fraud management	Helps demonstrate scale advantages gained through programs aimed to increase usage
Cost per client	For client-driven expenses such as client information reporting	Can feed into analysis of profitability on a per-client basis
Cost per card account	For expenses that are card account-driven, such as card issuing and third-party processing costs	Gives insight into the costs associated with customer segments by size
Cost per active account	For expenses that are active account-driven, such as cardholder servicing, billing and payment processing	Comparing costs per card account and costs per active account for account-driven expenses, can help identify how much inactive cards are costing the organization; can trigger programs to increase active rates
Revenue Metrics		
Revenue per card account	For annual fees and other revenue sources applicable to all card accounts	Indicates average revenue for each card account, including inactive accounts
Revenue per active account	For all revenue types, including those related to card usage such as interchange fee, finance charge, and foreign exchange	Can be compared to revenue per card account to show the value of card activity
Revenue stream as a percentage of total revenues	For all types of revenue	Helps identify the impact of incremental changes in pricing on total revenue
Revenues as a percent of volume	For all types of revenue	Demonstrates the ability of volume to drive revenue

Case Study: Choosing the Right Performance Metric

The focus of this case study is a Visa commercial card issuer that offers three card products. The first is a mature consumer card characterized by heavy revolving, with high outstandings and relatively low spend. The second is a small business product launched three years ago that also offers a revolving feature. The third product is a purchasing card with no revolving feature and high average monthly spend. The Bank closely monitors cost and revenue statistics for its card products and wishes to compare the profitability of each product using a single metric. The Bank evaluated three different profitability metrics for this purpose: Return on Assets (ROA), Return on Volume (ROV) and Return on Active Accounts (ROAA). Return on Assets (ROA) – net income to average outstandings:

Consumer ROA: .9%
Small Business ROA: 3%
Purchasing ROA: 18%

ROA is an appropriate performance metric for the consumer and small business products because revenues are driven largely by outstanding balances for these products. On the contrary, since purchasing products do not offer a revolving feature, revenues are driven by volume, not outstandings, and average outstanding is small for the purchasing card portfolio. As a result, the ROA figure is artificially inflated relative to that of the consumer and small business products. Thus, ROA does not provide a meaningful metric for comparison across products.

Return on Volume (ROV) – net income per currency unit of Retail Sales Volume:
Consumer ROV: 3.5%
Small Business ROV: 1.1%
Purchasing ROV: 0.5%

Because the Bank's consumer cardholders are heavy revolvers, but not high spenders, the ROV for the consumer card product was much higher than that of the other products. That is, revenue for consumer cards is driven less on volume and more on outstandings than for the small business and more so the purchasing card product. Therefore, ROV does not provide an accurate comparison of profitability across these products.

Return on active account (ROAA) – net income per active account per year:
Consumer ROAA: $131
Small Business ROAA: $255
Purchasing ROAA: $112

With respect to ROAA, the small business product, which generates both interchange and finance charge revenue, was the most profitable of the three. Since the revenue drivers for all three products are based on active accounts to a similar degree, return on active accounts provides a meaningful metric for comparing profitability across products. By using return on active accounts, the Bank was able to measure the disparity in profitability across the three products without discrepancies caused by the differences in product features and usage. To compare profitability across products, it is important to choose a metric that is relevant to all three products equally.

Case Study: Using a Profitability Dashboard to Manage the Bottom Line

The bank featured in this case study has a commercial card portfolio that has been active for five years and had over 300 corporate clients and an average of 35,000 accounts during the current year. The portfolio generated net income of 37 basis points on total volume of sales and cash transactions for the past year.

Management set a goal for the coming year of increasing portfolio growth from 7 percent over the past two years to 12 percent, while improving profitability to over 40 percent of total volume. The challenge is to choose the most cost-effective way to achieve these targets.

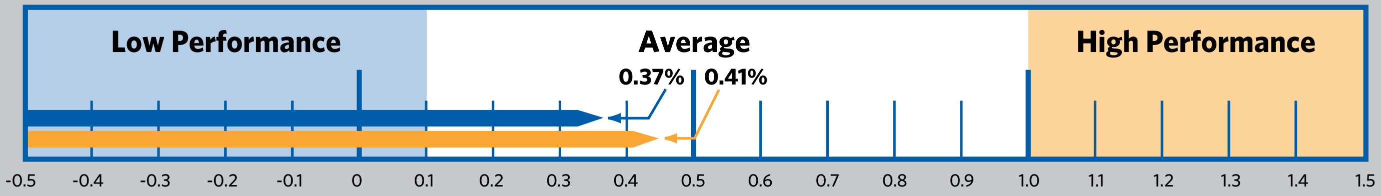
To assess potential opportunities to improve performance, the Bank's commercial card program manager created a commercial card dashboard to provide an overview of current portfolio performance.

Based on this quick snapshot analysis of these key measures, management decided to invest in a very focused plan to stimulate usage on active accounts and activation of inactive accounts within the portfolio. To accomplish this, the Bank worked with its major clients to establish performance goals and incentives to the client for meeting cardholder usage targets. Client relationship managers were supported in this effort through the creation and distribution of promotional materials highlighting the cost savings companies can realize by substituting expensive purchase orders and travel expense reimbursement processes with payment by commercial card products.

This program succeeded in raising the share of active accounts in the portfolio from 50 percent to 60 percent in the year following implementation. In addition, the number of transactions per active account rose 25 percent, from 7.2 per month to 9 per month. These outcomes in combination caused total volume per active account to jump to almost $15,000 per year.

This increased volume resulted in a substantial increase in total revenue for the portfolio. At the same time, the increased active account rate contributed to a reduction in direct operating expense per active account from US$85.50 to just over US$76.20 for the year after the plan was implemented. This was enough to offset the operating costs associated with implementing the program. Even when indirect expenses such as client rewards and cost of funds are factored in, the rise in volume caused total operating expenses as a percent of volume to decline by over 15 basis points. Bottom line: Implementing this targeted plan allowed the Bank to achieve its goal of boosting net income by over US$1 million, to a pretax earnings of over 40 basis points as a percent of volume. Thanks to the use of a commercial card dashboard, the Bank was able to quickly identify the best opportunities for improving performance, leading to the development of this successful program.

Net Income as a Percent of Total Sales and Cash Volume



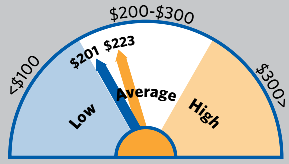
Legend

🟦 Current

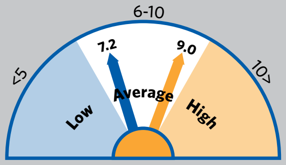
🟧 New

Bank management resolved to impact one or more of these three profitability drivers to reach its commercial card program goals. As the dashboard indicates, today the average active account generates 7.2 purchase transactions per month, which falls in the low end of the medium range. The average purchase transaction amount is just over $200, also on the low end of the medium range. The dashboard also shows management that only one half of the total 35,000 accounts in the portfolio are active in any given month.

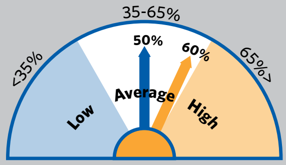
Average Purchase Amount



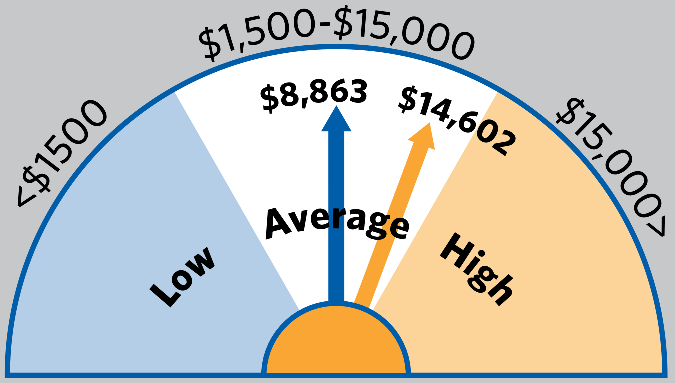
Number of Sales Transactions per Active Account per Month



Percent of Accounts Active

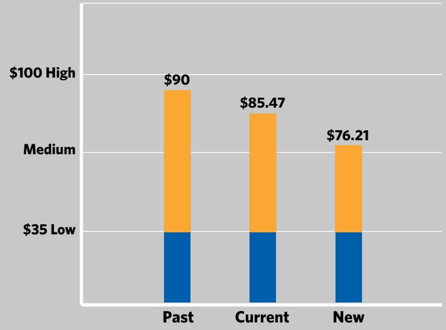


Average Sales Volume per Active Account

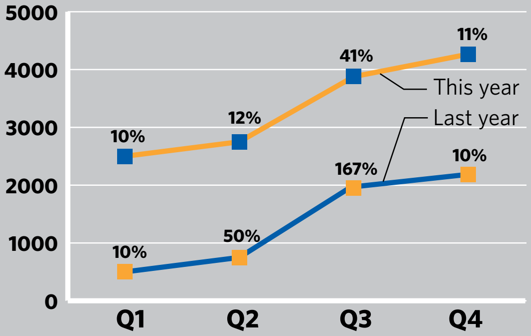


The commercial card program manager notices that the banks' average sales volume per active account is in the medium range at almost $9,000 per year. He also realizes that, in order to achieve both higher net income and account growth, volume per active account must rise faster than the operating costs associated with account growth.

Direct Expense per Active Account



Number of Card Accounts



Conclusion

Maximizing commercial card performance involves a concerted effort across multiple areas of a bank. For new and mature programs alike, managers of leading programs continually apply best practices to improve functional efficiency, increase growth and satisfy valued clients. While there are hundreds of variables that influence a program's success, monitoring a few key metrics on a regular basis can provide managers insight into a program's performance that enables them to make informed decisions about where to focus resources.

About Global Vision Group

Global Vision Group, founded by Dr. Thomas A. Layman in 2001, provides strategy, operations consulting and detailed analytical services on electronic payment solutions worldwide. GVGroup works with domestic and international financial institutions, e-commerce enterprises, processors, software and hardware payment solutions providers, and other businesses to help them increase revenue and boost efficiency through four key practice areas: profitability benchmarking and efficiency enhancement · business and risk strategy · marketing · product development.

GVGroup's specialties include:

- **Prepaid and stored value offerings**
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- **Commercial banking and business-to-business payment**
- **Mobile payment and emerging form factors**
- **Payment acceptance and processing systems**

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