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CIBC

INTRODUCTION

The morning meeting was on her mind as Pat Skene, vice president of the Consumer Credit Division of the CIBC Personal and Commercial Bank, entered her office on June 5, 1995. Pat was not sure if her department had the time, energy, or budget to continue promoting Bankware II. Bankware II was a software diskette that provided users with information on CIBC products and services and allowed users to do financial planning, including calculating mortgage and loan plans. While Bankware had been well received by customers, Pat wondered whether the software contributed to the new strategic direction in which the bank was moving. Hopefully, the meeting would decide once and for all what to do about Bankware.

THE COMPANY

Over the last 125 years, CIBC had grown to become North America's fifth largest bank and the second largest bank in Canada.[1] Consumers were most familiar with CIBC's Personal and Commercial Bank, which provided a full range of financial services to 6 million Canadian customers. Personal banking involved basic transaction services, deposits and investments, consumer loans, residential mortgages, VISA issuing and merchant services, and other related financial services. The CIBC Personal and Commercial Bank provided Canadians with these banking services through its network of 1,428 branches, 2,887 automated banking machines (ABMs), and 40,800 full-time personnel. Services such as CIBC LinkUp, CIBC Contact, and Commcash augmented the delivery network.[2] In fiscal year 1994, CIBC managed $115,462 million in deposits and $99,938 million worth of loans for individuals, businesses, governments, and banks. In 1994, CIBC had its best year ever, with a net income of $890 million, a 22 percent increase from 1993.[3] (**Exhibit 1** provides selected financial information for CIBC.)

In recent years, CIBC had increased its liquidity, improved the quality of its lending portfolio, and refined key business strategies as the bank moved toward its goal of becoming the preeminent Canadian financial services company. CIBC strove to accomplish this initiative by focusing on meeting the needs of its customers, and by building a corporate culture that encouraged employees to maintain this focus. The CIBC 1994 Annual Report contained the following statement by A. L. Flood, Chairman and Chief Executive Officer:

> In the Personal and Commercial Bank, we are working to better align our services and delivery systems with customer preferences. We want to ensure that we can meet our customers' basic banking needs in efficient and accessible ways. At the same time, we will enhance how we deliver, value-added service to customers with more complex financial requirements.

[1] CIBC was the corporate identity for a number of related corporations and operating units. These included the Personal and Commercial Bank, the Investment and Corporate Bank, CIBC Development Corporation, CIBC Finance, CIBC Mortgage, CIBC Trust, CIBC Insurance, CIBC Wood Gundy Securities, and foreign subsidiaries throughout the world.

[2] CIBC Contact provided toll free telephone access to staff able to provide information on CIBC products and services. The telephone lines were open Mon.-Fri. 8a.m.-9p.m. and Sat. 8a.m.-6p.m. (Eastern times). CIBC LinkUp was a service available to customers wishing to use their telephones to transact banking activities. Commcash was a similar service offered to commercial customers.

[3] All corporations and operating units.

This case was prepared by Ian McKillop, Gordon McDougall, and Natasha White, School of Business & Economics, Wilfrid Laurier University, Waterloo, Ontario, Canada. The case was written solely for the purpose of stimulating student discussion. The assistance provided by the Consumer Credit division of CIBC is gratefully acknowledged. Certain data have been disguised. All amounts are in Canadian dollars unless indicated otherwise.

EXHIBIT 1
CIBC Selected Financial Results 1990–1994
(Dollar Figures, Canadian $, in Millions)

	1994	*1993*	*1992*	*1991*	*1990*
Net income	$890	$730	$12	$811	$802
Net income applicable to common shares	749	599	(108)	710	709
Total assets	151,033	141,299	132,212	121,025	114,196
Loans					
Residential Mortgages	32,225	30,720	28,927	25,616	24,196
Personal and credit card loans	16,807	14,650	14,318	14,608	14,715
Business and government loans	50,906	51,811	51,682	46,137	44,420
Deposits					
Individuals	59,040	57,265	54,233	50,412	47,534
Businesses and governments	36,313	34,357	26,873	34,095	31,605
Banks	20,209	19,283	15,912	10,964	10,971
Return on Assets, %	0.60	0.53	0.01	9.68	0.74
Return on common equity, %	11.7	10.6	(2.0)	13,9	15.8
Ratio of Noninterest expenses to revenue	61.2	61.5	64.6	N/A	N/A
Ratio of net nonperforming loans to loans and acceptances	1.4	2.3	3.0	2.0	0.9
Ratio of credit losses to loans and acceptances	0.8	0.9	1.8	N/A	N/A
Earnings per share	$3.52	$2.99	$(0.59)	$3.93	$4.03
Book value per common share	31.18	28.9	27.44	29.41	26.90

THE INDUSTRY

Collectively, Canada's banks had assets in excess of $777 billion. There were nine domestic chartered banks in Canada and 51 foreign bank subsidiaries in Canada. Canadian chartered banks managed liabilities of $642,126 million, demand deposits of $41,332 million, notice deposits of $141,420 million, and loans worth over $470,464 million. There were 7,971 domestic bank branches across Canada.

The Royal Bank of Canada was the largest financial institution in Canada, with assets of $173,079 million and a net income of $1,169 million for fiscal year 1994, up from $300 million in 1993. The Royal Bank served more than 9.5 million personal and business clients through its 1,600 Canadian branches, 3,900 ABMS, 442 account updaters, and 30,000 point-of-sale merchant terminals. The Royal managed $135,815 million in deposits and $115,386 million worth of loans for Canadian individuals, businesses, governments, and banks.

The second largest financial institution in Canada was CIBC; the Bank of Montreal—with assets of $138,175 million and a 1994 net income of $825 million, up from $709 million in 1993—was a close third. The Bank of Montreal had 34,769 employees, 1,248 branches, and 1,708 ABMs in Canada and managed $98,241 million in deposits and $88,634 million worth of loans.

Collectively, Canada's six largest domestic banks, which controlled over 80 percent of all bank assets in Canada, had net income of $4,266 million in 1994, up from $2,903 million in 1993 and $1,844 million in 1992. The increase in net income reflected, in part, the improvement in the Canadian economy, which had experienced a deep recession up to 1992 but had begun a recovery in 1993 which had continued in 1994 and 1995.

CONSUMER BANKING IN THE NINETIES

The delivery of banking services had changed considerably in the past 10 years. Automated banking machines and other on-line processing technologies had allowed banks to move work out of branches and into the "back room." This had freed branch staff to concentrate on providing improved customer service and marketing the bank's deposit and credit products.

For many consumers, "convenience" was the watchword of the '90s. Consumers increasingly counted on their banks to provide basic transaction services quickly, cheaply, and accurately. Drive-through banking machines, telephone banking systems (such as CIBC LinkUp), 800 numbers that provided 24-hour access to personal banking representatives, and self-serve passbook updating machines were examples of technologies introduced by banks to offer customers increased levels of convenience and service.

Banks had also recognized that, for some customers, additional levels of personalized service might be more appropriate. These customers often had more complex banking needs and might look to their bank for investment counseling and other forms of asset management services. These customers were often highly profitable because they made use of a wider range of bank services and thus contributed to the bank's profits through fees and interest earnings to a greater degree than customers who relied on their banks only or primarily for automated services related to individual transactions. One study of bank customers indicated that "transaction-oriented" customers were marginally unprofitable while "personalized service" customers were very profitable. Another study of bank customers revealed that, on average, Canadians dealt with 2.2 banks, 26 percent used one bank, 37 percent used two banks, and 37 percent used three or more banks. Multiple bank users tended to have more complex banking needs. At many banks, customers with complex or extensive banking requirements were assigned a personal banking representative or "account manager" incentives or premiums were sometimes offered to reward these customers for their loyalty to a specific bank. For example, at one bank, if a customer had at least three products in his or her portfolio that together added up to $50,000 the client automatically received a $^1/_4$ percent discount on a credit product such as a car loan. if the client's bank portfolio exceeded $100,000, the client received an automatic $^1/_2$ percent discount on a loan. Similar premiums were offered for deposit products such as Guaranteed Investment Certificates. There was intensive competition to attract and hold the more profitable customers.

HOW CIBC COMPETED

The CIBC's Personal and Commercial Bank competed on quality, service, and personal relationships with its customers. The bank's corporate philosophy was best illustrated by Holger Kluge, president, Personal and Commercial Bank:

> We're not in the business of selling financial products. We're in the business of helping our customers achieve their financial goals.

Over the past year, the CIBC had completely repositioned itself to respond to the needs of its customers. In the past, the bank had been very focused on products which were sold based on price and product attributes. Now, CIBC's corporate strategy was based on two fundamental concepts. The first was relationship banking: a focus on serving the 'whole client' instead of a focus on selling products. The second component of the strategy was customer segmentation: grouping customers according to similar needs and expectations and then tailoring the way in which services were delivered to meet these needs.

Relationship banking encouraged bankers to move away from a product-focused marketing strategy (e.g., selling car loans, term deposits, mutual funds, etc.) and to concentrate instead on providing an integrated, tailored package of banking services designed to meet the needs of individual clients and households. For example, a client with $20,000 in a checking account (which had low interest rates) might be encouraged to invest in a money market fund (which had higher interest rates). The customer profited from the increased interest earnings, and the bank profited because the funds were now co-mingled with other monies with which the bank could pursue various investment strategies of its own.

CIBC grouped its customers into two broad segments: customers who valued convenience and customers whose banking needs caused them to, value personal service. The customers who valued the convenience of "anywhere" banking counted on the bank to provide quick, efficient, economical, and accurate handling of their transaction-oriented activities. The advanced features available through ABMs and CIBC's LinkUp service met many of the banking needs of these customers. Personal banking representatives were available in every branch to assist with transactions that could not be processed through an ABM.[4]

Customers who valued personalized service made up about 10 percent of a typical branch's clientele and about 20 percent of the bank's overall client base.[5] While many of these customers also valued convenience (in that they also wanted their banking activities handled quickly, efficiently, and cost-effectively), customers in this category usually had more complex banking requirements. These customers typically purchased a wider range of bank products. In addition, many had Hearings with CIBC partner organizations such as CIBC Trust or CIBC Wood Gundy Securities, or might be expected to have such needs in the future. To meet the needs of these clients, CICB had created the position of "relationship banker." Relationship bankers were specially trained personal banking representatives with good product knowledge, excellent money-management skills, and a strong people-oriented service focus. They worked closely with clients to provide a comprehensive and personalized package of banking services. A relationship banker in a typical branch might have 200 clients.

CIBC's emphasis on personal relationships was reflected in the bank's advertising. The bank no longer advertised individual products such as car loans. All advertising and promotional materials now reflected the changing needs of the customer and the customer's family. Instead of a brochure car loans that featured an illustration of a new car on the cover, a customer might find a brochure that offered comprehensive guidance to home ownership with a picture of a family on the cover. Inside would be descriptions of CIBC products applicable to home ownership such as mortgages, credit cards, and personal lines of credit.

In a service industry where it was becoming more and more difficult to differentiate through products, CIBC was differentiating itself based on its relationship with the client. CIBC believed that customers were more concerned with how well a financial institution helped them meet their needs and realize their financial aspirations than with what products the bank had for sale.

SYSTEMS SUPPORT

For relationship banking to succeed, bankers required access to a completely integrated, comprehensive customer database that consolidated all of a customer's interactions with the bank into a single client portfolio.

Relationship bankers at CIBC had access to a number of software products developed by the

[4] Applying for a term loan or arranging for a Guaranteed Investment Certificate were examples of services with which a Personal Banking Representative could offer assistance. Customers who valued convenience were also able to call CIBC Contact to access a Personal Banking Representative, freeing the customer from the need to actually come into a branch.

[5] The segmentation ratios are slightly different between a typical branch and the bank overall because there is a high concentration of customers with extensive banking requirements at main branches in major centres such as Toronto, Montreal and Vancouver.

CIBC's Information Technology division to help with this task. These software products could: (1) track the various banking services used by a household, (2) help bankers process credit applications and monitor credit products currently "on the books,' and (3) help bankers assess customer profitability (a banker could see the current contribution to branch operations generated by a particular household, including information on the total value of deposits and loans held by the household).

In the near future, a new software system currently under development would allow personal banking representatives not only to process deposits and withdrawals, but also to determine the profitability of each client and even identify clients who were good candidates to approach about investment or lending opportunities.

CONSUMER CREDIT

The Consumer Credit Division was one of a number of divisions within the Personal and Commercial Bank.[6] Consumer Credit, located in Toronto, had a staff of 120 employees and six regional consumer loan departments across Canada. Vice President Pat Skene managed a $10 billion portfolio of consumer credit products and was responsible for the marketing, operations, credit policy, and head office administration for all of Consumer Credit's products and services which were sold by CIBC branches across Canada.

Products Sold by the Consumer Credit Division

Overall, CIBC marketed 106 different products, which included various types of deposit accounts, investment instruments, RSPs, VISA cards, loans, and mortgages. The average client made use of three of the 106 products sold by the bank.

The Consumer Credit Division was currently responsible for managing all retail loans, which included three of the bank's main product lines: personal loans, personal lines of credit (PLCs), and overdraft protection. (**Exhibit 2** provides an overview of these product lines.)

Deposit instruments (including money lining dormant in transaction accounts) were the bank's most profitable product line, followed closely by mortgages.[7] Credit products (such as those managed by Consumer Credit) came in third. In recent years, there had been an increase in personal lines of credit, while the number and dollars of personal loans issued had been decreasing. Banks (and their customers) were turning more and more to PLCs alternative to the personal loan. PLCs required less paperwork than personal loans, and were generally less intimidating for the customer. (Consider that with a PLC, customers only had to apply for credit once. Thereafter, they were free to use the credit as they chose without having to explain their purchase wishes to a banker.) CIBC had more than 17 percent of the Canadian market in PLCs and 22.5 percent of the market in personal loans.

About one quarter of households in a typical branch purchased a PLC product, while 13 percent of households in a typical branch had overdraft protection. About 11 percent of PLC users chose to secure their PLC in order to take advantage of lower interest rates. A typical PLC customer had a credit line of $20,000 with an outstanding balance of $15,000.

Pricing and Costs Associated with Personal Loan Products

Credit products were priced in relation to the bank's cost of funds—the rate that the bank paid to

[6] Some of the other divisions included VISA, Retail Deposits, Mortgages, Private Banking, Investments, Marketing, Commercial Banking, Collections, and Delivery Network.

[7] While deposit instruments in general were very profitable, customers who maintained chequing and savings accounts with balances of less than $100 were generally unprofitable. Customers with very small chequing or savings account balances could represent up to 20 percent of a typical branch's clientele.

EXHIBIT 2
Main Credit Products Managed by the Consumer Credit Division

Personal Loans
There are two types of personal loans: demand loans and term loans. Demand loans must be repaid immediately upon request by the bank. Term loans must be repaid in full by an agreed upon date, although the loan can be paid out at any time without penalty. Term loans typically run less than 72 months, but can go as long as 300 months in special circumstances.

Term loans require the borrower to make regular (usually monthly) payments during the period of the loan. The payments are designed to "pay out" the loan in full during the period of the loan. Payments consist of both an interest and a principal portion. The amount of the payment is determined using annuity formulas for daily compounding interest.

Demand loans are similar to term loans except that in return for the customer agreeing to repay the bank immediately upon its request, the customer is charged an interest rate less than that charged for a similar term loan. In order to ensure that the customer has the ability to honour a possible "demand" for payment, customers seeking demand loans must usually have liquid assets equal to the amount of the loan.

Typical uses for personal loans are to purchase a car, consolidate debt, or finance minor home renovations. Once a personal loan is paid off, the customer needs to initiate a new application should financing be required for another purpose.

Personal Lines of Credit (PLCs)
A line of credit allows customers to establish a set lending limit against which they can borrow by simply writing a cheque on a special "line of credit account." Writing a cheque has the effect of establishing a loan on the date the cheque is processed by the bank. Interest charges begin on that day, and interest rates are similar to those offered on term loans. Once the loan is paid off, however, the credit line continues to be available for use by the client without a subsequent application to the bank.

Many customers choose to "secure" their line of credit by offering their house or other forms of equity as collateral. In return for the reduced risk that this form of credit line presents to the bank, the bank usually offers a discount on the interest rate charged.

Overdraft Protection
Overdraft protection provides customers with the knowledge that should they inadvertently write cheques for which there are insufficient funds in their accounts, the bank will honour the cheques up to the amount of the pre-established overdraft protection limit. Overdraft limits could be anywhere from $100 to $5,000 depending on the customer's needs and credit worthiness.

The customer is not charged for overdraft protection until the overdraft position is required. Interest charges are then hefty, often 21 percent.

purchase the money it wanted to lend. The difference between the bank's cost of funds and the interest rate charged to a customer determined the revenue stream the bank would receive from the sale of the credit product.

Branches had total price discretion on loans. Personal banking representatives examined the profit in relation to the customer's financial strength and the total relationship with the client when making pricing decisions on credit products. Personal banking representatives might even grant a customer a loan at a rate slightly over the bank's cost of funds if they felt that the overall relationship warranted such a step.

The Past Four Years in Consumer Credit

In 1991, the Consumer Credit division was suffering from the effects that the recession was having on CIBC's client base. A strong focus on marketing CIBC credit products, combined with a lack of sophisticated risk management and assessment tools accessible to branch staff, compounded the problem. Although Consumer Credit had a large number of loans under administration (which under normal circumstances would have been very profitable), arrears, delinquent loans, and loan writeoffs were having a significant impact on profitability (Exhibit 1).

Pat Skene mid the Senior Vice President, Brian Cassidy, both joined the division in 1991 and assumed responsibility for turning things around. Credit policies needed to be revised and better risk management tools needed to be developed. In the short term, credit-granting procedures were tightened and branch staffs were encouraged to avoid extending loans of marginal quality.

Resources were dedicated within Consumer Credit to enhancing existing credit scoring systems and implementing new on-line credit administration systems. Significant enhancements to software were made during this period to assist in new application assessments and portfolio management. Organizational improvements were also made. For example, a "line of business" approach to management was introduced. Bottom-line responsibility was given to cross-functional teams responsible for specific product lines (like PLCS.) This was in contrast to the previous organizational structure built around three functional areas: marketing, operations, and credit management. A special risk management unit was added to oversee the new Consumer Credit teams who now had a bottom-line responsibility for their product line.

At the same time, however, loan products were assuming a less significant role in the activities of CIBC branches. With stringent controls placed on the granting of credit, many bankers had moved on to marketing other products (such as deposit instruments, RSPs, etc.). It was hard to find a banker who considered himself or herself to be a lender during this period. It had been said that even a creditworthy customer had to "come out and ask, and then insist" to get branch staff to sit down and consider selling a credit product.

THE NEW CAMPAIGN

By late 1992, Consumer Credit was ready to begin the process of attracting new, quality loans. A significant challenge lay ahead. Branch staff, who was once empowered to make credit decisions, had that authority reduced during the restructuring process. Now the Consumer Credit wanted to convince branch staff that the appropriate systems, policies, and controls were in place to actively meet customers' credit needs. Three things were needed: to disseminate the new approach throughout the organization, to explain the new software, and to find ways to differentiate CIBC products from the competition.

The first step was to communicate to branch staff (Personal Banking Representatives, Managers, etc.) what had happened and to share with lending staff that CIBC wanted to write new personal loans. To accomplish this, two senior executives from the Consumer Credit group (Brian Cassidy and Pat Skene) set out in November 1992 to travel across Canada meeting with front-line bankers in every district. Their message was clear: "We are changing the loan experience." A second step was to share with branch staff how the new enhancements to the software system would help them better serve their customers. Training and education seminars on the new credit scoring system were held across the country.

The last step was to find ways to differentiate CIBC loan products from competitors' products. This was important because loans were a commodity. Unless CIBC loan products had value-added features that somehow distinguished them from those of the competition, CIBC bankers would have difficulty attracting customers away from the other sources of credit that they had discovered during the previous year and a half.

The Consumer Credit team met in 1992 to brainstorm ideas that would add value to the personal credit products, and that would help differentiate CIBC loans from those offered by other banks. Many innovative ideas emerged from these sessions. Six of these ideas were implemented as a part of a campaign targeted at branch staff called "We're Changing the Loan Experience." The six main elements of this campaign were as follows.

1. *Roadside assistance.* Lenders were able to offer one year of roadside automobile assistance (at no cost) to customers taking out a new loan. This was a great selling feature for car loans, although

Roadside Assistance could be offered as a premium with a loan taken out for any purpose.

2. *Discount coupon for loans.* Bankers were provided with a promotional tool designed to thank customers and reward them for their business. After making the last payment on a loan, customers would receive a thank-you note from a personal banking representative. A coupon for a $^1/_2$ percent discount on the customer's next loan with CIBC was included with the note. There was also a place for the banker to include two copies of his or her card. One card could be kept by the customer, and the customer was encouraged to pass the second card along to a friend.

   This promotional item was well received by both lenders and customers. Bankers liked how they could formally thank customers for their business with a small token of their appreciation (the discount coupon) and, in the process, possibly attract new business in the future. Customers liked the fact that the bank had rewarded them for their business with a coupon that could save them hundreds of dollars on their next loan.
3. *Bankware.* A software diskette was developed containing information about products and services offered by the bank. The diskette also included credit planning tools such as a mortgage payment calculator and a budgeting template. Customers could even use the diskette to learn how much credit their income and current lifestyle could support.
4. *An informational booklet.* A well-written, informative booklet, "Credit Smart," was developed that answered questions people commonly ask about credit and how credit is granted. Much of the contents of the booklet could also be found in the Bankware software. However, unlike the software, the booklet did not have automated scenario calculation capabilities.
5. *Free VISA Classic card for a year or Free CIBC LinkUp for a year.* For customers applying for a CIBC consumer credit product, bankers could provide vouchers waiving the normal fee for a CIBC Classic VISA card for a year, or they could provide one year's free CIBC LinkUp service.
6. *The "valued customer" portfolio.* A burgundy slipcase with a gold elastic binding was introduced that branch staff could provide to customers when a loan was approved. The slipcase contained slots to store loan documents, informational brochures, a copy of the Bankware disk, and the banker's business card. While this seemed like a value-added idea, branch staff never warmed to the concept. Thousands of the burgundy slipcases languished in the Toronto warehouse.

In March 1993, an additional promotion was introduced called Last Payment on Us. The Last Payment on Us program offered customers the opportunity to have the bank make the final payment on their personal loan (up to $500), provided that the loan was kept up to date with regular payments during its amortization period. This program was enthusiastically received by branch staff and customers appeared to respond positively.

Bankware I and Bankware II

While the idea for Bankware came out of the brainstorming sessions at Consumer Credit, the seed for the idea had been planted in Brian Cassidy's mind when he saw a similar, but simpler, product from Wells Fargo, a large U.S. bank, at a U.S. trade show. The Wells Fargo diskette had been developed by Interactive Media from San Francisco. CIBC contacted Interactive Media to see if they could produce an enhanced diskette for the Canadian market. The resulting software, Bankware, allowed users to explore features of CIBC loan, mortgage, and other credit products. Consumer Credit paid for the software development and distribution costs from its own operating budget. Total cost for Bankware was US$250,000.

Bankware was introduced to the Canadian public in early 1993. Using Bankware, customers could calculate a budget, determine their net worth, apply for a mortgage or loan, and learn how to save on interest costs. The software, was distributed to branch managers, who, in turn, gave copies to interested customers. A full-page advertisement was run in *Globe & Mail*, Canada's national newspaper, encouraging people to mail in a coupon in response to which the bank would send out a copy of Bankware. Over 144,000 copies of the software were produced and distributed. Customers (and potential customers) could now explore the various options open to them before entering a branch to apply for a loan, mortgage, or line of credit.

As Brian Cassidy observed:

> Bankware was a great idea. As an advertising and promotional tool, consider its staying power. You give away a brochure and it gets thrown out. You give away a diskette and it gets copied.

Bankware was well received, but many people, including customers, had ideas for additional features that should be incorporated into the software. The Consumer Credit division decided to commit resources to develop an improved version, Bankware II.

While Bankware concentrated on services and products offered primarily by the Consumer Credit group, Bankware II showcased the much wider range of products and services available from CIBC. Features of deposit accounts, investments, VISA, mutual funds, mortgages, and loans were all to be added to the software to present a comprehensive overview of products offered by CIBC. A section targeted at introducing children to the world of banking was planned. The new version was to have a strong customer focus.

Other divisions of the bank (such as VISA, CIBC Wood Gundy, etc. were invited to participate in the development of Bankware II. Although coordinated by Consumer Credit, the division looked forward to being able to include promotional materials submitted by the other divisions. However, most divisions chose to have Consumer Credit staff prepare the marketing material to describe their products. As Consumer Credit prepared materials, they were sent to the other divisions for their review and approval. Despite the fact that Bankware II would promote products from many other divisions and entities within CIBC, the full cost of the software's development was sponsored by Consumer Credit.

Consumer Credit had initially planned to contract out Bankware II's development (as had been done with Bankware), but soon found it necessary to produce the script for the disk themselves, and then work with an outside programmer to complete the disk. Working as a team, Consumer Credit's product staff created the diskette's content, while Consumer Credit's marketing staff handled packaging and distribution. From start to finish, Bankware II cost $250,000 to produce. The direct production costs were as follows:

Software development	$100,000.00
Disk duplication	
(including virus scanning)	88,000.00
Jacket printing	19,000.00
Assembly	
(insert disk into jacket, collate, wrap)	23,000.00
French translation	20,000.00

The indirect costs were 462 person days of effort from Consumer Credit staff time committed to meetings, product brainstorming, developing scripts, testing, etc.

Bankware II was launched in September 1994. Among other features, the new version offered users the ability to print personalized mortgage amortization tables and to compare cash back car offers with discounted loan interest rate offers. There was even a section designed so that children could explore the services offered by a major bank. Bankware II allowed customers to learn, explore, compute, make decisions, and print out information on virtually any of CIBC's products and services. A total of 150,000 English and 25,000 French copies of Bankware II were produced.

Competition for Bankware II was minor. The Toronto Dominion Bank and the Bank of Montreal had information diskettes, and the Royal Bank had a small business diskette. As far as anyone knew, no other bank had a promotional product similar to Bankware II.

Two focus groups were held to gain insight into customer perceptions of the original Bankware. Results from the focus groups suggested that customers might be undervaluing the true value of Bankware because it was being given to them for free. The groups suggested that the bank charge a \$15 fee for the disk in order to increase the perceived value of Bankware II to the customer. Bank officials disagreed. They thought that Bankware II was a promotional tool to help the customer and should not be seen as a way to generate revenue.

Branch managers had been given 100 free copies of the first version of Bankware, after which they were able to obtain additional copies from Head Office for \$0.50 each. This charge was debited to the branch's marketing budget, just as the branch paid for posters and other promotional items such as certain brochures and CIBC crested pens. Branches were encouraged to load Bankware on their personal computers so that staff could familiarize themselves with the product and be able to demonstrate it to clients. No free copies of Bankware II were given to branches. Given the penetration of the first version of Bankware, it was thought that branch staff would know the product well enough to order copies of Bankware II from Head Office with their regular promotional items order. Over 85,000 copies of Bankware II were ordered by branches, but it became clear by early 1995 that branches were shying away from ordering Bankware II. Head Office then removed the nominal fee (\$0.50), and almost overnight the branches requested another 41,650 copies. Clearly, there was a pent-up demand for the diskette. It was estimated that 80 percent of the Bankware II diskettes distributed to branches were passed along to customers. As with the first version of Bankware, many of these diskettes were copied by customers and passed along to friends.

Bankware II was available free of charge to CIBC customers. Unfortunately, many of the bank's customers were unaware that the product existed. Branch managers often kept copies of Bankware II in their desk drawer, and only distributed the diskette to customers upon request. This might have been a hold-over from the days of the We're Changing the Loan Experience campaign when the diskette was considered to be a premium to be offered to customers to thank them for their business. Other than at one Toronto branch, the diskettes had never been left out on a table for customers to pick up as they passed by. The reason for this given by one banker was, "If you were to leave huge piles of diskettes on a table some people might scoop up a whole bunch to take home and reformat as blank floppies!

Many bank managers and personal banking representatives were enthusiastic about Bankware II. One Montreal bank manager raved:

> Bankware II is one of the best promotional tools the bank has developed.... It helps the customer help themselves. Customers can see what they, qualify for and become a better educated consumer by exploring the various options available to them. This knowledge reduces the customer's feelings that the bank works in mysterious and unpredictable ways. Designing a loan to meet the needs of a customer is hard. Bankware II makes it easier for me to serve my customers because the customer is already aware of his or her options.

An Edmonton branch manager agreed:

> Bankware II is great! A good customer is an informed customer, and Bankware II helps to show customers what their best options are. For ourselves, Bankware II not only provides control, but has the potential to lower the cost of dealing with a transaction in the future. Right now all inquiries generated in response to fax-back screens in Bankware II[8] go through CIBC Contact, but in the future I could see the customer bringing me an electronic file all ready for processing. This would reduce paperwork and data capture time

[8] One of the features added to Bankware II was the ability for customers to automatically fax their completed loan applications to CIBC Contact. Customers whose computers did not have built-in fax capabilities could print a copy of their loan application and either mail it to CIBC Contact or take it into a local branch. Bankware II did not include the ability to directly connect via modem with CIBC's information system.

at my end, freeing me up to spend more time with the customer on other financial planning issues.

At other branches, few disks were distributed. One problem was that CIBC's Information System Division had changed the operating system at the branches from DOS to OS/2 just before the release of Bankware II. For integrity and security reasons, only software developed or supported by the Information System Division was loaded on the network servers. This meant that Bankware II could not be loaded at the branch level and customers could not be shown how to use it at the branches.

Within the Consumer Credit division, the staff felt that the need for Bankware was apparent. In the opinion of one Consumer Credit employee:

> Sometimes bankers don't realize that some customers feel incredibly intimidated when seeking a loan. Approval of a loan is an everyday occurrence from the bank's perspective while it is a rare occurrence for the customer. Furthermore, bankers often feel that customers are aware of the various financial options while customers themselves feel that they have no other options. The bank's offer is often seen as a "take it or leave it" situation. With Bankware II, the borrowing transaction is not such a ordeal for the typical customer.

Pat Skene had her own interest in promoting Bankware II. She knew first-hand the tremendous job that her staff had done in developing and putting Bankware II together. She was, moreover, a true believer in Bankware II's advantages:

> Customers really need Bankware II. If the bank wants to build strong, binding relationships with customers, it must look to customer needs. Bankware II helps the bank address these needs, allowing customers to make informed decisions about their finances.

THE TEAM MEETING

The managers and staff from all of Pat Skene's Consumer Credit departments were chatting about Bankware II around the boardroom table as Pat arrived. The agenda for the team meeting had been set for weeks. (See **Exhibit 3**.) In attendance were:

Pat Skene	Vice President, Consumer Credit
Rita Ripenburg	General Manager, Retail Lending
Catherine Gardner	Senior Manager, Personal Loan Portfolio
Warren Wood	Product Manager
Rosemary Naltchadjian	Product Manager
Michelle Thomas	Secretary to Pat Skene
Denise Fawcitt	Manager, Marketing (Consumer Credit)

EXHIBIT 3
Notice of June 5, 1995, Board Meeting

To: All CC Staff Involved in the Development of Bankware or Bankware II

When: June 5, 1995, 10:00 a.m.

Location: 1st floor conference room—CC operations Centre
Coffee available.

Agenda:
- Welcome and Introduction
- Review of Bankware Project
- Future Plans

Bring your thinking cap and your coffee mug!

Telephone regrets to Michelle at ext. 8501.

Ming Wong	Systems Manager (Consumer Credit)
Sherwin Lui	Manager, Office Systems

and seven representatives from the operations and the risk management groups.

Pat opened the meeting, "I would like to begin by thanking everyone for the countless hours that you have all put into the development of Bankware II. I am extremely proud of the Consumer Credit department and all of the innovative work that each of you has put into Bankware II."

Pat: When we started working on Bankware II we thought branch staff would love the product and could not help but get excited about all the capabilities Bankware II gives our customers. But since the launch of Bankware II, the product hasn't taken off as we had anticipated. Warren tells me that we still have 48,350 copies in inventory (**Exhibit 4**), and this is after we told the branches that they could have copies for free. We need to make some tough decisions.

Consumer Credit launched Bankware back in '93 as a part of our initiative to regain a dominant position in the personal credit marketplace. We have accomplished this. In fact, as you know, we have just finished our best year ever. Bankware was a part of that turnaround. Now we have to decide where we want to go in the future.

Depending on what happens next with Bankware II's development, some people have suggested that the software has the potential to change the way the bank operates and interacts with its customers. Maybe we could begin with some general discussion.

Denise: As Pat has said, our We're Changing the Loan Experience campaign combined with the Last Payment on Us campaign was extremely successful.

EXHIBIT 4
Inventory Status of "We're Changing the Loan Experience"

Campaign Items Central Stores Inventory Report 3420-B-332
Inventory Status of Campaign Promotional Materials
Campaign 34F-CC: We're Changing the Loan Experience
Report Created: June 1, 1995
Run By: JSM
Forward To: Denise Fawcitt, Consumer Credit

Item Code	Description	Instock	Backordered
CC3453-1	THANKYOU BROCHURE—ENGLISH	12,000	
CC3453-2	THANKYOU BROCHURE—FRENCH	3,000	
CC3488-3	1/2 OFF COUPON—BILINGUAL	15,330	
CC3493-1	CREDIT WISE BOOKLET—ENGLISH	0	0
CC3493-2	CREDIT WISE BOOKLET—FRENCH	130	
CC3498-3	VISA CLASSIC FREE YEAR	217,320	
CC3499-3	LINKUP FREE YEAR	257,870	
CC3520-3	VALUED CUSTOMER PORTFOLIO	60,000	
CC3532-1	BANKWARE 3 1/2 ENGLISH	560	
CC3532-2	BANKWARE 3 1/2 FRENCH	430	
CC3576-1	BANKWARE II 3 1/2 ENGLISH	33,650	
CC3576-2	BANKWARE II 3 1/2 FRENCH	14,700	

We have increased our portfolio by over $2 billion since the start of these programs. Some of you have been asking about how much the premiums cost that we used during these campaigns. I've put together some numbers and you will find them attached to your agenda (**Exhibit 5**). Don't forget that for many branches, the budget out of which they pay for these promotional items might only be $2,500. If a manager has to choose between hosting an investment seminar at a local hotel for $500 and buying 100 Valued Customer Portfolios or 1,000 Bankware disks, she might be inclined to host the seminar. The "payback" is probably faster in that she'll make some RSP sales for sure after the seminar. The irony is that while it may take longer in coming, the return to the bank will be much larger from a customer who uses Bankware II to choose one of our mortgage or loan products.

Papers rustled as team members flipped through the agenda looking for Denise's memo. Someone asked about how many loans were a part of the Last Payment on Us campaign.

Warren: It is hard to know how many people will be taking us up on our Last Payment on Us campaign, as the loans involved in this campaign

EXHIBIT 5
Cost Premiums for We're Changing the Loan Experience Campaign

Memo from the Desk of Denise Fawcitt, Manager, Marketing

Consumer Credit—Operations Centre, North York

May 31, 1995

Details on premiums used for the We're Changing the Loan Experience campaign.

Roadside Assistance
Cost is $25.00 per membership. Consumer Credit buys the memberships as needed. (Branch isn't charged.) No figures are available on how many Roadside Assistance memberships have been purchased for customers.

1/2% Off Coupons + Thank You Brochure
Coupon + Thank You brochure costs $0.35 per set to print. 210,000 units have been ordered by branches. No data is available on how many coupons have been used. (We can't spot this because Personal Banking Reps simply adjust the interest rate in CLASS to account for the coupon.) We provide these items to branches free of charge.

Credit Wise Booklet
The booklet costs about $0.95 to print. Branches are charged $0.75 each. We printed 250,000.

VISA Classic Card
Coupon has a value of $12.00 (1 year's VISA Classic fee). The coupon itself costs us hardly anything to print. Branches aren't charged for the coupons or for the cost of the forgone VISA fee revenue.

Free LinkUp Service
Situation is similar to that for the VISA Classic card coupons. CISC LinkUp is worth $2.25 per month, and the coupon is good for one year's service.

The Valued Customer Portfolio
Cost to us was $5.50 each. We charged branches $5.00 each. 100,000 were printed.

Bankware
Warren previously provided you with information on Bankware's development costs.

are just beginning to reach their term. First impressions, based on the amount of voice mail I'm receiving from branches asking how to process the final "free" payment, suggest that the campaign was very successful. I think the neat thing about this campaign is how it attracted the very customers we wanted … people who keep their loans up to date, pay them out on time, and never get into arrears.

Rosemary: And I'm sure that astute Personal Banking Reps are making sure that every one of these customers gets a "$^1/_2$% off" coupon along with a thank you note at the end of their loan. These are just the customers that a branch will want to hang onto.

Rita: Wouldn't it be interesting to know how much loan business we attracted because of Bankware II? Remember how in Bankware II we have that great feature where customers could compare a CIBC loan with a loan offered by a car dealership at a seemingly unbelievable interest rate? By the time you factored in the "cash back" option, which you usually had to give up to get the "unbelievable" rate, our loan almost always came out as the cheaper one. Imagine the edge we'd have if we updated Bankware II to show the additional effect on the total loan cost of having the bank make the final payment!

Warren: Rita has a good point, but the Last Payment onUs promotion is no longer offered to customers. But what Rita has pointed out is that the static nature of Bankware II doesn't allow it to reflect the new innovations and campaigns we develop both here in Consumer Credit and elsewhere in the bank.

Pat drew everyone's attention to the memo (**Exhibit 6**) she had received from the Strategy Planning Group in the Marketing Division regarding the promotion and distribution of Bankware II.

Pat: I think this memo is along the lines of Warren's comment. It basically says that Bankware II is now "off strategy" because the diskette's strong product focus is not in keeping with the bank's current strategic thrust of enhancing relationships with our clients.

Denise: But Bankware II is much more than a product-focused advertisement. It's an educational toot that provides consumers with the very information they need so that we can form an informed and mutually beneficial relationship with each customer.

A number of silent nods signaled unanimous agreement. She continued,

Denise: In fact, I think Bankware's strength lies in its ability to better inform clients about our services.

EXHIBIT 6

Interoffice Memorandum to Pat Skene from Marketing Strategy Planning Group

To: Pat Skene, VP Consumer Credit — Date: April 28, 1995

From: Marketing-Strategy Planning Group

Re: Bankware

As you are aware, the bank recently launched a major repositioning of itself in the marketplace. The cornerstones of our new strategy are relationship banking and customer segmentation. We want to provide the right services at the right place at the right time, tailored to the needs of each customer.

While we think that Bankware is an innovative product, we are not sure that it fits well with the bank's current strategy. The diskette is completely product focused. While we think that CIBC products are very well presented in Bankware II, the diskette is not a good fit with our current relationship-focused strategy.

We would like to suggest that you hold off further development of Bankware until we have a chance to meet to discuss this issue.

The software allows customers to interact with the bank in a manner that is convenient, quick and technologically advanced. Heck … that is part of the bank's strategy! I think that our next version of Bankware, and I want to go on record as thinking there should be such a product, should be designed to do just that … make banking even easier for the customer who values convenience.

Pat: What do the rest of you feel that it will take to make Bankware a success in the future?

Rita: I think we need to focus on four dimensions of competition in the '90s. Where does Bankware fit in terms of price, cost, quality and timeliness?

Warren: I think that we need to put more effort into the technological development of the product before we can look into promoting Bankware III effectively. Although released in 1994, Bankware II's interface is already becoming dated. We should also look into making the product available on CD-ROM. Bankware III should have a full featured graphical user interface, and we need to upgrade Bankware to work with the bank's PC system.

Did you know that while bankers were able to explore the features of the first version of Bankware, many bankers have never seen how Bankware II works because they can't load a copy on the network. It is impossible for Personal Banking Representatives to show customers how to use Bankware II.

Ming: The Information Systems division is concerned about maintaining the integrity of our cross-Canada network. I've heard suggestions that we should allow customers to have direct access to the network. Wow. Then we'd really have to make sure that we have the right security in place.

Sherwin: I agree, and yet this seems to be the way of the future. Everyone talks about the information superhighway. Did you see the full-colour advertising supplement the Royal Bank ran in the *Globe & Mail* few months ago? RBC even has their own "home page" on the World Wide Web.

Rita: That's true, but they don't have a product like Bankware II to give to customers. Right now, we are at the leading edge of technology with respect to how banking will be done in the next century. We cannot afford to let go of this opportunity. I think we need to decide when to expand and where to expand. I think we should develop Bankware III and distribute it in an all-out nationwide campaign. What does everyone else think?

Rosemary: What's our goal here? Are we trying to attract new customers to the bank, or to sell additional products to the customers we already have. My friends in Delivery Network tell me that it is expensive to attract business from other banks-particularly profitable business. We end up giving so many interest rate concessions that it's hard to make a profit. Why not focus Bankware so that it helps cement relationships with existing clients?

Catherine: Look, Bankware is a great product, and along with the other initiatives that we put in place as a part of the We're Changing the Loan Experience program, it helped contribute to our success in attracting new loan business. But let's not forget that Bankware II was expensive to produce, and took a huge amount of personal commitment on the part of everyone around this table.

We've got lots of people who love Bankware. People also love our "$^1/_2$% off" coupons and the free Roadside Assistance program. How do we know where we're getting the best bang for the buck? I bet we've spent thousands buying Roadside Assistance memberships for customers.

Warren: I think what we really need to do is to get the other divisions as excited about Bankware as we are. Think of what Bankware could do to promote an understanding of CIBC Insurance products, or of brokerage services available through Wood Gundy. If Bankware III is going to succeed, it can't be as a Consumer Credit initiative, it's got to be as a CIBC initiative.

A voice piped up from the back of the room.

Voice: Great idea. But we're a huge corporation. That's like asking Prince Edward Island lobster boat owners on the East Coast to help plan salmon quotas on the West Coast. They might be interested. They might have lots of experience. But, bottom line—they've got too much to take care of in their own backyard to be able to spare the time.

Warren tried to see who was talking, but couldn't.

Rita: Let's get back to what Catherine was talking about. While some of the other premiums are expensive, the per unit cost of Bankware is peanuts in the big scheme of things. We are a multibillion dollar bank. What I think is important to recognize is that if the software is not able to do everything a customer would like it to, then Bankware is useless in promoting CIBC's products and services.

For example, Bankware III should have the ability to do more financial planning. We could use the software to show people the value of contributing regularly to their retirement savings plan. The planner should show the impact of various interest rate scenarios. Instead of showing how much your money will grow to at, say 10 percent, show comparative columns with a low, medium, and high rate of return.

I disagree with Denise on who the target audience for Bankware III should be. If we develop Bankware III, it should be aimed at customers who are profitable to the bank and who have more comprehensive banking needs than those clients who look to us to help with their transaction-oriented requirements.

Rosemary: Remember that the focus groups told us that customers would perceive Bankware to be a more valuable tool if they had to pay for it. Some customers might be willing to pay $15.00 for a financial planning tool, but would everyone? What we really need to decide today is who should receive I Bankware. I think every customer should be given a copy of Bankware free of charge.

Ming: It would be very expensive for the branches to give every customer a copy. The average branch has about 2000 customers. Bankware III would cost much more than Bankware II if this is our strategy.

Pat decided she should focus the discussion.

Pat: We've had a lot of discussion about how we can improve Bankware, but we haven't really talked about whether we should improve Bankware.

Rita: Marketing has correctly identified that the diskette is product focused. How appropriate is this given that we are encouraging our branch staff to move away from a product focus toward a more integrated client service approach?

Catherine: Let's also not lose track of the fact that while the branches are adopting a more integrated, total customer focus, the organization back here at Head Office is still functionally oriented. We have done a great job reorganizing ourselves so that we have product teams with bottom-line responsibility, but in the end, we are still product focused. If a branch offers RSP loans at prime to encourage investing in CIBC Mutual Funds, the mutual fund division watches their profits soar, while we end up booking a bunch of loans with no profit, and therefore no contribution to our division.

Denise: What really matters is that the personal banking rep made a good decision from the bank's standpoint. That's because once the loan is paid off, profits will continue to be made from the RSP investments. This is why I think that it is so important that all the other players be invited to sit at this table and decide what to do with Bankware.

Pat: Let's think "big picture" for a moment. We had a real problem in 1992. Through the efforts of everyone here, together with our retail delivery network, we accomplished a remarkable turnaround. Maybe Bankware helped with the turnaround. Maybe it didn't. Bottom line … we did change the loan experience.

The bank's profits are higher than they've ever been. The loan portfolio is growing every day. We are the number two bank in Canada. I guess my question is, where do we go now? What do we do next? I've heard the following points this morning.

1. We could either develop Bankware III or devote resources elsewhere.
2. If we think it's worthwhile to develop Bankware III, should Bankware III be … aimed at providing financial planning tools for customers who

count on CIBC to provide support and guidance in managing their financial affairs or designed to make it even easier for convenience-oriented customers to interact with the bank? The features needed in Bankware III would be very different under each option.

3. If we choose to devote resources elsewhere, what are examples of value- added initiatives that we could undertake instead of Bankware III to help promote and support the sale of Consumer Credit products?
4. What role can we play in the development of a relationship-focused approach to banking given that we are product focused?

Warren, I wonder if you and three or four people could get together to examine and report back on these issues? There might be some other points that also deserve attention. If everyone is free on Friday morning, why don't we meet back here to review what Warren and the smaller group has come up with.