Filene

Agenda & Pre-reading

Optimizing Channels for Superior Member Service Workshop

Presented by: Dennis Campbell
Harvard Business School
October 3, 2013

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FILENE RESEARCH INSTITUTE
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Filene

Logistics

Nassau Inn
Ten Palmer Square
Princeton, NJ 08542
609.921.7500

Meeting held in the Prince William Ballroom
Breakfast & Lunch in the Senior Room

Transportation to Princeton:
New Jersey Transit: http://www.njtransit.com/

Notables

Suggested Dress Code

Business Casual

Provide your input!

www.filenefeedback.com
Or use the QR code to the right.

Eats

Triumph Brewing Company
138 Nassau Street
Solid grub & brews
Quick walk from the Nassau Inn

Hoagie Haven
242 Nassau Street
Hot or Cold Hoagies, a local favorite
609.921.7723

The Bent Spoon
35 Palmer Square West
Unique gelato & amazing coffee.
Get the beer pretzel caramels.
FYI: Cash Only

Small World Coffee
14 Witherspoon St.
Coffee done right + solid pastries
Get the pastry that tempts you.
FYI: Cash Only

Many restaurants in town are BYOB. We recommend checking before you head to dinner if you'd like a beverage of choice.

Project Planning Expectations

This workshop will be broken into two sessions. While it is not mandatory to attend both sessions, it is highly encouraged to attend both.

Session 1: October 3, 2013 – Princeton | 8:00AM to 4:30PM
Session 2: April 2014 – Dates/Location TBD

Participants will take lessons learned from the final "Optimizing Member Experience" workshop and build metrics specific to their own credit union's goals. Session 2 will involve reporting back to the group on implementation of the metrics and, if possible, performance to date on those metrics.

Professor Campbell invites willing participants to track and share their derived metrics and performance on those metrics for potential inclusion in his academic research.

Agenda

7:30 – 8:30	Registration | Breakfast
	Rob Rubin will share some tips on how to engage online prospects, gain new members, increase web traffic, ensure your website addresses non-member needs, and drive down costs with optimized e-services.
8:30 – 9:45	Case Session 1: Commerce Bank
	The case sessions introduce the concepts and frameworks needed to make the working sessions effective.
9:45 – 10:00	Break
10:00 – 12:00	Member Experience Workshop 1: Defining the Member Experience
	Participants work to define and rank the most important attributes of the member experience within a given channel at their credit union. They then map out how their own and their closest competitors' capabilities stack up in delivery of those attributes.
12:00 – 1:00	Lunch
1:00 –2:15	Case Session 2: Ikea or TD-Canada Trust
2:15 – 2:30	Break
2:30 – 4:30	Member Experience Workshop 2: Optimizing the Member Experience
	Participants extend the work from Workshop 1 to identify systematic opportunities to optimize the member experience within the channel they chose to prioritize. The day closes with a discussion on how participants can take the lessons back to their credit union. We will focus in particular on how to apply the member experience strategy definition and optimization process repeatedly across different channels and member segments, and we will identify opportunities to leverage data from your own organization to enhance the effectiveness and impact of this process.

9-110-049
DECEMBER 14, 2009

DENNIS CAMPBELL
BRENT KAZAN

TD Canada Trust (Abridged)

Introduction

In early December 2003, Chris Armstrong, executive vice president and chief marketing officer of TD Canada Trust, walked into his office and sat back in the emerald-green leather armchair that had come to symbolize TD Canada Trust's brand of "comfortable banking" (see **Exhibit 1**). As he began to review the progress report for the year, he paused for a moment and remembered back to how he had captured the sentiment of the organization during the December 5, 2001 holiday party, where he stood up and sang to the tune of Winter Wonderland:

Profits ring, are you listening?
CSI, scores are glistening,
A beautiful sight,
We're happy tonight,
It's an Integration Wonderland.

It had been just over two years since the Toronto-Dominion Bank (TD Bank), Canada's fifth-largest commercial bank, completed its integration of CT Financial Services, Inc. (Canada Trust), Canada's largest independent trust company and by many accounts this had been one of the largest and most successful mergers in the history of Canadian financial services. Since the merger, Armstrong and his team had spent countless hours working towards establishing a "comfortable banking" brand and developing the measurement, reporting, and reward systems necessary to ensure its consistent execution across a large and geographically diverse branch network. After many hard won battles convincing the top executive team of the newly merged entity of the merits of the "comfortable banking" brand, and of his plans for its execution, Armstrong was now facing some resistance to the new strategy from the front-line. The possibility that key branch managers could withhold support at this juncture weighed on Armstrong's mind as he looked at the first batch of results and thought about the challenges ahead.

Professor Dennis Campbell and Research Associate Brent Kazan prepared the original versions of this case, "TD Canada Trust (A): The Green and the Red," "TD Canada Trust (B): Linking the Service Model to the P&L," and "TD Canada Trust (C): Translating the Service Model to Service Operations," HBS Nos. 108-005, 108-043, and 108-055. This is the abridged version of those cases. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Background on TD Canada Trust

The Toronto-Dominion Bank—Pre-Merger

The Toronto-Dominion Bank, a chartered Canadian bank subject to the provisions of the Bank Act of Canada, was formed on February 1, 1955, through the combination of the Bank of Toronto, established in 1855, and the Dominion Bank, established in 1869. Since then it grew to become Canada's fifth-largest commercial bank (see **Exhibit 2**).[1] Headquartered at the 56-storey TD Tower in downtown Toronto, the TD Bank served customers through its network of retail banking and investment outlets, as well as through its electronic banking services arm, TD Access, which included telephone banking, the Green Machine Network, Web banking, and INTERAC direct payment system.

Since its inception, the TD Bank had always been strong in the retail (accounting for 48% of deployed capital) and wholesale businesses (accounting for 52% of deployed capital). By the end of 1998, the TD Bank executives believed that increasing the bank's investments in the retail business (to at least 60%) would deliver greater value to shareholders. In 1999, in the face of increasing competition and new technologies, the TD Bank made a strategic move to reposition its retail banking business and focus on customer satisfaction. The main objective was to reduce costs, enhance service levels, and transform the TD Bank's sales-oriented branches into service centers.

As of 1999, the TD Bank had 28,000 employees, 918 branches, and reported net earnings of $2.9 billion—up from $1.14 billion in 1998 (see **Exhibits 3** and **4** for the TD Bank financials). It also had the highest credit rating of any bank in North America—Standard and Poor's AA and Moody's Aa2.

Canada Trust—Pre-Merger

Canada Trust, a wholly-owned subsidiary of CT Financial Services Inc. and Canada's largest independent trust company[a], was founded in 1864 as the Huron and Erie Savings and Loan Society. The original loan society was established to acquire savings deposits to fund mortgage lending. In the late 1800s, the company opened several branches in Western Canada to funnel surplus eastern savings to western farmers and developers to finance western development. After World War II, the company focused primarily on mortgage lending in cities and on lending to corporations that needed to invest in plants and equipment. In 1959, Canada Trust became the first trust company to sponsor a mutual fund.

Canada Trust was known as the customer-friendly innovator in the Canadian financial services industry. For decades, the company either invented or popularized ideas that were subsequently copied by major banks, such as a daily interest savings account, 10-year mortgage terms, and commission-free mutual funds. Canada Trust also pioneered the use of automatic teller machines (ATMs) and offered a limited form of computer banking before most people had heard of the idea. As a service powerhouse, the company was the first financial institution to introduce consumer services such as 12-hour business days, 24-hour telephone banking, and six-day-a-week customer service. Due to Canada Trust's innovative and unusual retail banking offerings, many of its customers came to view the company as the "anti-bank," an image the company actively fostered with a variety of unusual service offerings such as mortgage-burning ceremonies. At one point in the late 1980s, the company even called its 1,000 ATMs "Johnny Cash Machines" and promoted the service with life-

[a] While not considered banks, trust companies provided a full spectrum of financial products and services just like banks. Compared to sales-oriented big banks, these small companies often had customer-oriented business models and better customer satisfaction ratings.

size cutouts of Johnny Cash asking the question, "Why walk the line?"—a reference to one of his hit songs.

As of 1999, Canada Trust had 12,000 employees, and operated a network of 429 branches across Canada. By 2001, with 3.7 million customers, $38 billion in deposits, and $176 billion in assets, Canada Trust was one of Canada's largest nonbank financial institutions (see **Exhibits 5** and **6** for Canada Trust financials).

The Canadian Financial Services Sector and Regulatory Environment

Banks played an integral role in Canada's financial system and general economic development. Collectively, banks accounted for over 50% of the total assets of the Canadian financial services sector, which included insurance companies, trust companies, *caisses populaires,*[b] and credit unions.[2] Just six banks—the TD Bank, Royal Bank, ScotiaBank, CIBC, Bank of Montreal, and National Bank—controlled 90% of all Canadian banking activity, and offered a full range of services from lending money to underwriting securities and insurance.

Due to the country's low number of financial institutions, the Canadian government closely monitored banks and protected them from hostile takeovers and foreign competition. Every merger and acquisition needed to be approved by Canada's finance minister, the Competition Bureau, and the Office of the Superintendent of Financial Institutions (OSFI). Traditionally, the federal government would monitor the proposed mergers and acquisitions for potential job losses and branch closures; the Competition Bureau would examine the concentration of new ownership; and the OSFI would look at the financial strength of the new company.

With the rapid economic slowdown in Canada in the late 1990s, banks became increasingly interested in strategies that would save them money through increased economies of scale. While big banks waited for Ottawa to pass legislation that would reform and modernize the country's financial services law, they pursued a wide range of growth strategies, including mergers and acquisitions. In January 1998, Royal Bank of Canada and Bank of Montreal proposed joining forces in what would be the biggest corporate marriage in Canadian history. In April 1998, the TD Bank and CIBC followed suit with a proposed merger worth almost $20 billion.

Both proposals were eventually denied by the Canadian finance minister on antitrust grounds and concerns about service access. The merger proposals and the prospect of branch closures also triggered consumer outrage. If approved, Canada's big banks would shrink to only three or four. The two deals would put almost 40% of all the domestic assets held by Canadian financial services companies in the hands of just two banks.[3] The merged companies would also control about 75% of all loans and deposits held by the country's domestically owned banks. Furthermore, there was no guarantee that the merged banks would not raise fees and close or consolidate its rural branches.

The Merger of the Toronto-Dominion Bank and Canada Trust

Government Approval

Fourteen months later, the TD Bank proposed the acquisition of Canada Trust, the last trust company or savings bank of any size left in the country. Since Canada Trust was not a big bank, the

[b] A form of credit union located predominantly in Quebec.

deal was seen as a takeover of a trust company rather than a merger of equals. Furthermore, because Canada Trust was in danger of losing the support of its strong corporate partner, the Canadian holding company Imasco Limited, the deal was treated as a unique case by the finance ministry.

The deal was approved with several conditions. First, the government required TD Canada Trust to divest 13 branches in Ontario and sell the MasterCard division of Canada Trust. (The TD Bank offered VISA bankcard services; and the Canadian Bank Act prohibited banks from offering both.[4]) Second, the federal government wanted commitments from the TD Bank and Canada Trust that customer service would be maintained (i.e., that there would be no drastic increases in fees or decreased hours of operation) and that rural communities would be well served after the merger. Third, the government looked for commitments that the employees who would lose their jobs after the takeover would be taken care of financially.

The TD Bank executives were happy with the approval, but they also thought that some of the government's restrictions were too strict for a private institution. Maintaining service in rural communities was a concern because the merger proposal indicated that 275 branches expected to close. In addition, the TD Bank would need to eliminate 4,900 jobs when it took over Canada Trust.[5] "The public was treating us more and more like a quasi-public institution, demanding levels of service, such as maintaining costly branches in rural areas, that foreign banks in Canada did not have to provide" recalled Charles Baillie, the TD Bank's chairman and CEO at the time.[6]

Completion

On February 1, 2000, the TD Bank finally completed its $8 billion acquisition of CT Financial Services, the parent of Canada Trust. The deal immediately lifted TD from being Canada's fifth-largest commercial bank to its third-largest, with $258 billion in assets.[7] The retail unit of the merged entity took the name TD Canada Trust, and Canada Trust president and CEO Edmund Clark became the CEO of TD Canada Trust. The merged institution was projected to have 1,340 branches, 39,000 employees, and about 10 million customers.[8]

In the next six months, TD Canada Trust's profits went up 37% and revenue climbed 40% to total $10.2 billion. By the end of the year, the bank's market capitalization reached $26 billion.[9] Initial results were promising. However, the most challenging part of the largest financial services acquisition in Canadian history was still ahead: completing the merger without losing customers.

The Integration

Customer Retention Concerns

The success of the merger of the TD Bank and Canada Trust hinged on building scale and generating higher returns through revenue growth and cost savings. However, cost savings would be minimal because the bank had been asked to be sensitive about its branch closures and layoffs. To that end, a key factor in succeeding after the merger would be the merged bank's ability to retain customers. In fact, TD Canada Trust needed to retain as many of its 10 million customers as possible, including 3.7 million from Canada Trust,[10] to be successful. In addition, the bank was also counting on generating an additional $60 million of annual revenue within four years by offering its services to Canada Trust customers.

Armstrong and his executive team knew they were facing several unique challenges. First, there was a general hostility towards mergers. "You have to understand, bank bashing is the No. 2 sport in Canada, right after hockey," said Brad Francis, vice president of marketing research and marketing process management, laughingly. Though Canadians were notoriously unwilling to switch financial institutions because of the hassles involved, most Canadians still thought bank mergers would have a negative effect on service charges. Second, many borrowers did not want to deal with a bank that appeared to be distracted by the logistics of a big merger. In addition, many Canadians had originally moved to Canada Trust because they were not satisfied with the service offered by the larger banks. Third, in 1998, after the Bank of Nova Scotia bought National Trust, Canada Trust itself had launched an advertising campaign that said: "You woke up one morning to find your trust company was being bought by a big bank. We should talk." Armstrong, who had spent his years at Canada Trust urging Canadians to do business with his trust company rather than a chartered big bank, was now in a position to explain and defend the TD Bank-Canada Trust merger.

It was difficult to introduce a new brand that appealed to millions of insecure and potentially hostile customers who had experienced an unwelcome takeover. While the credit unions saw a big jump in phone inquiries about their services and a rise in the number of hits on their websites, TD Canada Trust received many complaints from its 10 million Canadian clients over the first stage of combining operations, which involved standardizing customers' accounts. Some patrons complained of sharply higher service fees, while others expressed concerns that they were losing Canada Trust's personal service, extended hours, and service to rural areas.[11] Customers who had been drawn by Canada Trust's anti-bank marketing campaigns were slowly switching to credit unions and other financial institutions. "We needed to do something and we needed to do it quickly. We had to develop a strategic plan to manage TD Canada Trust's customer retention," recalled Armstrong.

Public Promises

The bank made several public announcements about its customer service commitments. The company issued full-page newspaper ads with titles such as "Building a better bank for you," "Put customers first," and "Treat our people the way we want them to treat our customers." Many of these ads included detailed promises of longer hours, better service from tellers, and fair treatment for laid-off employees.[12] Fred Tomczyk, vice chair of the TD Bank Financial Group, elaborated:

> For our customers, we issued "merger updates" in newspapers and distributed well over three million personalized information packages—aimed at keeping customers informed of all the changes affecting them. We put customers and employees at the top of everything we did. We formed Customer and Employee Committees and articulated 10 commitments to employees, customers, and communities. Most importantly, we had an unwavering focus on customer retention. We knew [that] if we couldn't keep customers, the merger was worthless. We made a promise to our customers that they would experience an unparalleled level of service at the new bank.[13]

To keep that promise, TD Canada Trust needed to quickly integrate both institutions and present a united image of one institution.

Green vs. Red

Shortly after announcing the acquisition, Charles Baillie, CEO of the TD Bank, said that the merged bank would adopt "the Canada Trust model of customer service." The changes would not end there. Most of the products, services, and pricing of the merged bank would come from the Canada Trust side—even the name for phone banking, EasyLine. And in the new company logo, the name Canada Trust would occupy three-to-four times more space than TD.

By August 2000, most of the top officials were formerly of the "red" (Canada Trust) camp as opposed to "green" (the TD Bank), and it was clear that the balance was tipped in Canada Trust's favor. Persistent rumors were that the merger had become a reverse takeover of sorts, with the smaller Canada Trust taking over the organizational culture rather than the TD Bank doing so.[14] Edmund Clark, CEO at CT Financial Services, was named chairman and CEO of the integrated entity; Dominic Mercuri, vice president of target marketing for Canada Trust, became the senior vice president of advertising and marketing services; Janet Hawkins, Canada Trust's vice president of customer strategy and information, became senior vice president of strategy and information; and Chris Armstrong, Canada Trust's executive vice president of marketing and customer strategy, was named chief marketing officer.

Banking Can Be This Comfortable

Armstrong, charged with re-branding and presenting a united image of one institution, did not fit the part of the executive banker. Often described as "larger than life," he was very energetic and funny, with a touch of southern charm coming from his Virginia roots. As a professional, he did not start out in marketing. After college he joined the U.S. Army. "In so many ways he's unbanklike which is his strength," said Brian Harrod, executive vice president and creative director at Harrod & Mirlin/FCB in Toronto, TD Canada Trust's new advertising agency.[15]

Though he was not a typical banker, Armstrong was well positioned to import the service and brand strengths of Canada Trust into the new organization. He had tremendous experience and know-how in Canada Trust's processes including the institution's approach to branding and its related customer satisfaction measurement system which was centralized, fact-based, and relied heavily on the "customer satisfaction index."[c]

With his usual flair, Armstrong first started to promote an emerald green leather armchair as the symbol of the TD Canada Trust brand with the slogan "banking can be this comfortable". The actual big green chair, which Armstrong kept in his office, was a fixture in his presentations to employees and investors where it frequently accompanied him on stage. He was often spotted in the garage of TD Canada Trust's Toronto headquarters loading the chair into the back of his SUV to bring to these presentations.

Charged with re-branding and presenting a united image of one institution, Armstrong hired Canada Trust's ad agency FCB Toronto (formerly Harrod & Mirlin) and launched a lavish advertising campaign in which the emerald-green leather armchair, along with the slogan "banking can be this comfortable", were featured prominently. In the following months, TD Canada Trust's aggressive push for its new brand included full-page ads in several national newspapers, a four-week purchase of all the available wall-poster and floor-decal space at Toronto's Union Station, and a six-week media buy where the company bought the first available spot at 9 p.m., via a "television roadblock," aired a 30-second ad simultaneously on almost every Canadian TV station.

Armstrong also focused on employee presentations and training, because he knew that the transformation had to be more than just a marketing campaign. After all, the TD Bank had been the most aggressive of all the big banks in weaning customers away from face-to-face service, and it would take a great effort to educate the bankers about customer service. "We really had to change the way the organization was run, the way people were employed, and the way they thought about their business," explained Armstrong. "We tried to educate TD Canada Trust's employees about the new brand by live presentation and video." In the following months, to facilitate a more customer-friendly branch atmosphere, TD Canada Trust implemented a brand new program to give all branch

[c] The customer satisfaction index involved daily phone calls to 1,000 customers to inquire after their same day experience with the bank.

employees the power to respond proactively to customer concerns. With the new initiative, branch employees could reverse service charges without obtaining a manager's approval. In an effort to increase its customer satisfaction ratings, the bank also vowed to freeze service fees for a year and opened additional stand-alone kiosks in Wal-Mart and Sobeys stores.

Results of the Marketing Campaign

By the end of 2001, TD Canada Trust's aggressive $80 million marketing campaign—to make public promises and reassure customers that the service level Canada Trust was known for would be maintained at the new bank—appeared to have paid off when a national survey showed that most of Canada Trust's "anti-bank" customers were still with TD Canada Trust. Additional market research showed that while most U.S. bank mergers traditionally resulted in an average of 5% to 10% customer attrition, TD Canada Trust had maintained steady scores on its customer satisfaction index (CSI) and unexpectedly grew its customer base during the integration.

Armstrong, who had run a great marketing campaign for TD Canada Trust, was happy with the first-year's results. However, he knew the job was only half done; the bank still needed to deliver on its promise.

He explained:

> When you get down to what drove consideration, it was not about an exciting ad campaign. It was about delivering. When you drove people to the door, with "banking can be this comfortable," you'd better be sure that you could deliver because now you've magnified the sense of betrayal and the damage you could do to the brand when you don't deliver.[16]

Measuring Brand Experience

To deliver its service promise, TD Canada Trust needed to have a new image and a new brand. With the 2001 advertising campaign and the slogan "banking can be this comfortable," TD Canada Trust had already attempted to create a distinctive service model and cement a successful brand. The task at hand was not easy, however. Company executives soon realized that branding in financial services was more complicated than in other sectors because it involved branding an experience rather than a product. "Every bank claimed to focus on ease of use, access to service, and convenience. We knew that we had to somehow differentiate ourselves from the competition based on our brand," recalled Armstrong. "But how would you really know if you had a successful brand?" he added. "We needed to have a bulletproof way to measure the brand experience."

Customer Satisfaction Index (CSI)

To create a consistent "comfortable banking" experience, TD Canada Trust needed to either adopt or construct a customer satisfaction model that would identify and explain the key service behaviors that drove customer satisfaction. However, neither the TD Bank nor Canada Trust had had an applicable measurement system at the time of the merger. Armstrong thought that a modified version of the survey-based CSI measurement system that he had developed while at Canada Trust could be an answer. With this in mind, he had turned to Janet Hawkins, a key member of the TD Bank-Canada Trust integration team and senior vice president of customer strategy and information at TD Canada Trust, to formulate the new model. Hawkins explained the first steps:

> Immediate feedback was important for us. So, we moved to create survey-based measures by which we called customers within 24 hours of their last service experience to get measures

> of their satisfaction with the service experience. We felt that this was the only way to gather reliable data, and that this study was a lynchpin into importing the Canada Trust service model into TD Canada Trust.

Armstrong continued: "We wanted to separate the service experience from attributes of our products. We really tried to measure satisfaction with the service experience as of a moment in time, to get the focus off the product."

The customer satisfaction index (CSI) system that they ultimately developed captured a long list of service behaviors (i.e., service with a smile, feeling like a person not a number, etc.) that collectively were expected to drive customer satisfaction and brand loyalty. Most of the service behaviors captured in the CSI system were those that Armstrong and his team had found to be important drivers of satisfaction in their previous work at Canada Trust. The other performance measures in the CSI were captured via monthly surveys of customers who had conducted transactions in branches. Customers were asked to rate their banking experience in areas such as speed of service and courteousness of service. These responses—collected from random samples of customers within 24 hours after their last service experience—were then aggregated for each month by branch into measures of the percentage of 'yes' responses (i.e., 95% of respondents answered "yes" to the question "Did the Teller process your transaction quickly?"). The information from the CSI system, including measures of overall customer satisfaction, and performance on the various service behaviors, were finally reported to branch-level employees via monthly scorecards (see **Exhibit 7** for a sample branch scorecard). The purpose of the scorecard system was to communicate service performance to branch employees and enable them to make decisions about which areas to focus on to improve service and customer satisfaction.

Linkage Analysis

In implementing any large-scale operational changes in service delivery, Armstrong knew he would likely face resistance from all levels of management if he could not prove the merits of the "comfortable banking" brand positioning for the bank. He needed to demonstrate the financial performance implications of focusing on customer satisfaction and service delivery in the branch network. With the help of an outside consulting firm specializing in analytics, Armstrong initiated a "linkage analysis" study to determine which key service behaviors were linked to customer satisfaction and superior financial performance. The goal was to demonstrate the impact that specific enhancements or reductions in key customer-satisfaction drivers would have on branches' financial performance.

Data Branch-level data from the CSI system (November 2001 through October 2002), as well as data on branch profitability (gross contribution), were the primary sources of data for the linkage analysis. To account for branch differences (i.e., branches located in distinct markets with vastly different customer characteristics), the analysis incorporated data on branch characteristics including market type, districts/regions, customer variables (i.e., number of active customers, percentage of high-value customers, customer tenure, customer traffic volume, etc.), employee variables (i.e., number of employees, sales/service/admin staffing, etc.), and account variables (i.e., personal, small business, and commercial accounts). (See **Exhibit 8** for customer satisfaction and branch profitability variables.)

Methodology A three-step process was implemented to link CSI performance to branch profitability. In the first step, measures of service behaviors were examined for uniqueness or redundancy and sorted into unique "service dimensions": (1) "Makes Me Feel Comfortable,"

(2) "Speed of Service," (3) "One on One," and (4) "Privacy" using factor analysis.[d] (See **Exhibit 9** for grouping of CSI indicators and for factor analysis scores). In the second step, the four service dimensions were analyzed via correlation and regression analysis to establish a causal link to overall customer satisfaction. In the third and last step, customer satisfaction and the four service dimensions were analyzed along with other variables to establish a link to branch-level gross contribution.

Results The analysis provided evidence that the measures captured in the CSI system were potentially important drivers of branch profitability. Collectively, overall satisfaction and the four service dimensions (e.g., "Makes me feel comfortable") explained approximately 19% of the variation in branch-level gross contribution (see **Exhibit 10**). The results of the linkage analysis quantified the link between customer satisfaction improvements and financial performance. The analysis suggested that if all branches in the TD Canada Trust network increased customer satisfaction by 1%, then overall gross contribution would increase by $3.3 million, representing a 0.25% increase in annual gross contribution. Similarly, the model suggested that if all branches were to achieve the customer satisfaction levels of the highest-performing TD Canada Trust branch, then overall gross contribution would increase by $42.5 million, representing a 3% increase in annual gross contribution. The analysis also quantified the link between the four service dimensions and customer satisfaction. For example, an increase of 1% in measures related to "comfortable banking" (i.e., percentage of customers who were satisfied that the teller made them feel their business was appreciated) led to a 1.65% increase in customer satisfaction (see **Exhibit 11** for an example of the analysis structure). Finally, the analysis provided estimates of the ultimate effects of the four service dimensions on branch profitability through their effects on customer satisfaction. The analysis suggested that if all branches in the network increased the measures related to the service dimension of "comfortable banking" by 1%, this would lead to a 1.65% increase in customer satisfaction, which in turn would result in an additional $5.4 million in gross contribution across the branch network (see **Exhibit 12** for estimated gross contribution impacts).

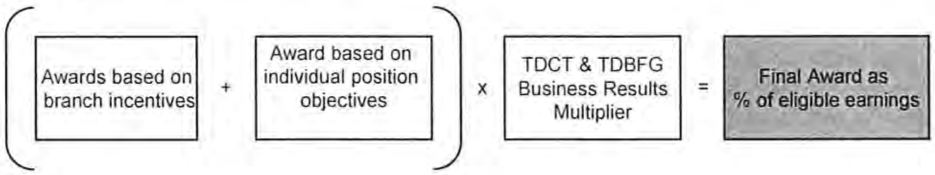
Branch Incentive Plan (BIP)

Even though Armstrong's study quantified the link between customer satisfaction and branch financials, former TD Bank executives were not quite ready to import what they viewed as yet another aspect of Canada Trust, in this case the service model, into TD Canada Trust. "There was a lot of resistance and skepticism." Armstrong recalled. "Every week, we fought a religious battle on whose analysis to keep." It was clear from the study that intangible factors such as making customers comfortable affected customer satisfaction ratings and branch financials. However, TD Canada Trust executives were more interested in making tangible changes (i.e., increasing service hours or the number of employees) to increase profitability. Armstrong knew if he could convince TD Canada Trust management, he could then move to redesigning branch operations based on the CSI system and the results of the linkage analysis. He got to work.

One of the first areas he targeted for change was the compensation of branch-level employees. None of the performance measures in the CSI, including customer satisfaction, had previously been linked to incentive compensation for branch-level employees. Armstrong and his team intended to eventually modify the branch incentive plan (BIP) to reward employees based, in part, on performance on the CSI. The new BIP Armstrong envisioned would balance three key objectives—reward strong team performance, reward strong individual performance, and support organizational goals—and would be calculated based on the formula shown in **Figure A**.

[d] Factor analysis is a form of multivariate analysis that takes a large number of variables or objects and aims to identify a small number of factors that explain the interrelations among the variables or objects.

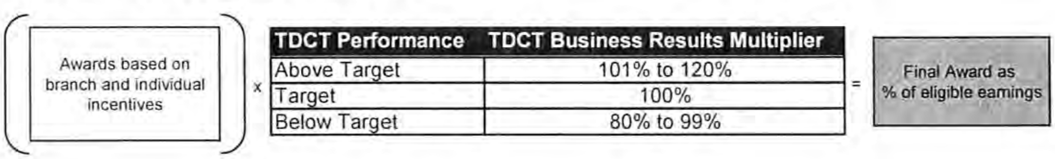
Figure A Employee Incentive Formula



Source: Company documents.

Incentive awards, calculated at the end of each quarter, would factor in team performance measured against branch objectives, individual performance measured against position objectives, and corporate business performance. Team performance would be measured against branch objectives, consisting of retail volume growth (growth in book of business), branch customer satisfaction (overall satisfaction measure from the CSI), and branch profitability (total revenue less controllable expenses). Individual performance was determined by a managerial assessment in which a branch manager subjectively judged an individual's performance against position accountabilities and objectives. The awards that had been calculated based on achievement of branch and individual performance would then be adjusted by the TD Canada Trust (TDCT) Business Results Multiplier within a range of 80% to 120% depending on the level of achievement of corporate business goals (see **Figure B**).

Figure B TDCT Business Multiplier



TDCT Performance	TDCT Business Results Multiplier
Above Target	101% to 120%
Target	100%
Below Target	80% to 99%

Source: Company documents.

Similar to the existing incentive plan, the amount of the incentive would vary by position, branch retail volume growth, branch CSI, branch sales revenue, individual sales revenue, and managerial assessment of employee's skills (see **Exhibit 13** for weighting of branch and individual objectives by position). Additionally, for each position, there would be a threshold, target, and maximum award based on the achievement level of branch and individual objectives. The "Threshold Award" represented the minimum performance that must be achieved, "Target Award" represented the expected level of performance for a specific objective, and "Maximum Award" represented the highest performance level for which an award could be earned. If a customer service representative met only his threshold his weight distributions were multiplied by 2.0%, if he met his target his weight distributions were multiplied by 4.0% (see **Figure C** for an example of a customer service representative who met his target).

Figure C Incentive Award Calculation (assuming target business performance)

Customer Service Representative (CSR)

Employee's Quarterly BIP earnings = $6,000 **CSR BIP target award: 4.0%**

	Weighting	Performance	Calculation	Award %	
Branch CSI	40.0%	Target	40% X 4.0%	1.6%	
Branch Profitability	15.0%	Target	15% X 4.0%	0.6%	Branch Component
Branch Retail Volume Growth	15.0%	Target	15% X 4.0%	0.6%	
Managerial Assessment	30.0%	Target	30% X 4.0%	1.2%	Individual Component
	100.0%			**4.0%**	
				X	
TDCT & TDBFG Business Results Multiplier		Target	Multiplier = 100%		Corporate Component
				=	
Final Quarterly Award %				**4.0%**	

Quarterly Award = 4.0% x $6,000 = **$240**

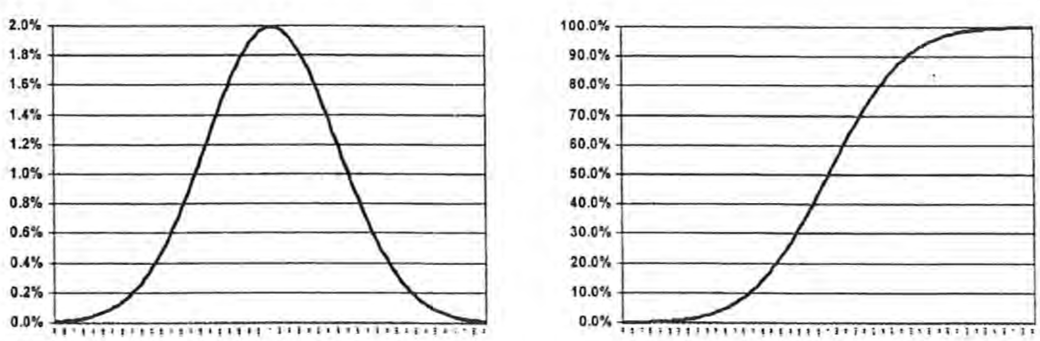
Source: Company documents.

For each position, the threshold, target, and maximum award weights would also be different (see **Exhibit 14** for percentages for various positions).

Setting Targets

To create branch CSI performance targets for the branch incentive plan, bank analysts converted z-scores (that followed the "normal" bell-curve) obtained from each of the performance measures in the CSI model to s-curves that showed cumulative percentages (see **Figure D**), allowing the model to show "below threshold," "maximum efficiency," and "diminishing returns" ranges for branches across all underlying CSI service behaviors.

Figure D S-Curve Data Transformation



Normal Distribution *S-Curve*

Source: Company documents.

After the conversion, the thresholds for branch performance levels were computed using the mean and standard deviation. Areas were separated with mean minus 1 standard deviation, mean, and mean plus 1 standard deviation (see **Exhibit 15** for illustration) and depending on their overall customer satisfaction ratings, each TD Canada Trust branch fell into one of the three categories: Area "below threshold" (from 0% to 75%) showed branches that were under-delivering in key factor dimensions; area "max efficiency" (from 76% to 89%) showed branches that would yield the greatest financial lift from increases in key factor dimensions; and area "best-in-class (from 90% to 100%) showed branches that were already performing well enough so that increases in key factor dimensions would only yield diminished returns in financial impact.

The s-curve model not only identified struggling and high-performing branches, it also showed an interesting fact that had an important impact on TD Canada Trust's new compensation policy. The analysis found that while moving the average of "max efficiency" branches 2 points higher (i.e., from 86.4% to 88.4%) would yield an incremental $4.6 million in gross contribution, moving the average of "best-in-class" branches 2 points higher (i.e., 90% to 92%) would only yield an incremental 1.2 million gross contribution. Francis explained the importance of the model: "The model helped us identify nonlinearities and points of diminishing returns. It gave us an ability to focus on specific branches with certain levels of CSI scores. It also changed the way we set targets and structured financial payouts."

Branch Scorecard System

In addition to revising the branch incentive plan, Armstrong and his team developed branch performance scorecards to diagnose the CSI dimensions that would most effectively increase customer satisfaction in each individual branch (see **Exhibit 16** for the new TD Canada Trust Scorecard). The new scorecard system used color codes (red for "need to improve," yellow for "room to improve," and green for "maintain") to show different performance levels and identify service behaviors that most affected a particular branch's performance levels (see **Exhibit 17** for thresholds of CSI factors and **Exhibit 18** for a sample branch report).

Grumbling from the Bottom

The new compensation plan aimed to maximize TD Canada Trust's overall network profitability. However, not everyone within TD Canada Trust was happy with the changes to the bank's branch incentive plan.

The results of the linkage analysis showed that the bank could maximize the overall profitability of its branch network by focusing on "maximum efficiency" branches, which meant low- and high-scoring branches would not get significant incentive compensation even if they improved their CSI scores. As a result, both struggling and high performing branch managers were in favor of customizing the BIP. Typical of the arguments that were voiced by branch managers in favor of this approach were those of Lynn Davis and Brian Preston.

Davis, manager of TD Canada Trust's Winnipeg branch, questioned the idea of not awarding additional compensation to branches that could reach higher customer satisfaction levels. "Shouldn't 100% customer satisfaction be our goal? We believe we can still improve our CSI ratings and not being rewarded for moving from 91% to 98% is rather puzzling," said Davis, whose branch had achieved a high CSI level, 91%, but was below the threshold level for branch profitability and retail volume growth.

Preston, manager of TD Canada Trust's Toronto branch, was also in favor of a more customized incentive model design. Preston's branch had reached the threshold level in branch profitability and retail volume growth but failed to achieve the 75% CSI score necessary to receive the CSI-based portion of the incentive award. "Our branch scored 73% on the CSI because we are located in a highly populated urban market with many competitors and customers with high expectations for service," said Preston. "We are optimistic about increasing our branch's CSI score, but driving retail volume growth and branch profitability is are more appropriate goals for a branch like ours."

The Road Ahead

It had been a long road since the TD Bank and Canada Trust merger. In an effort to deliver TD Canada Trust's brand promise, Armstrong and his team had not only developed a customer satisfaction index that explained and identified the key, actionable drivers of customer satisfaction, but they had also showed the link between service behaviors and financial performance. However, challenges clearly remained. The possibility that branch managers could withhold support at this juncture loomed in Armstrong's mind. Was this model effectively motivating execution of the "comfortable banking" brand at the frontline? Should different CSI target levels be set for different branches? Armstrong sat back in the big green comfortable chair in his office and thought about his options.

Exhibit 1 TD Canada Trust's Emerald Green "Comfortable Banking" Armchair

"Banking can be this comfortable"

Source: Company documents.

Exhibit 2 Major Canadian Banks, Profits, Number of Branches (1999)

Bank	Profits	No. of Branches	Change from 1998
Toronto-Dominion	$2.98 billion	918	-14
Royal Bank	$1.76 billion	1,410	-12
ScotiaBank	$1.76 billion	1,178	-96
Bank of Montreal	$1.38 billion	1,042	-23
CIBC	$1.03 billion	1,338	-21
National Bank	$417 million	649	+3

Source: "Canada's Banks Question Their Cocoon—Gains From Wider Activity May Outweigh Protected Status," *The Wall Street Journal*, April 16, 1998, via ProQuest, accessed September 13, 2007.

Exhibit 3 The Toronto-Dominion Bank Balance Sheet (1997–1999)

TORONTO-DOMINION BANK (THE)	Total Return 1 Yr.(%)	
Industry Group: National commercial banks	12.92	
	Total Return 5 Yr. (%) 182.85	

Scaling Factor : Millions CAD	Y1999	Y1998	Y1997
Assets			
Cash And Due From Banks	1,464.00	1,379	517
Total Investments	94,801.00	62,010	56,743
Treasury Securities	885.00	1,118	1,896
Federal Agency Securities	6,562.00	4,522	4,371
State And Municipal Securities	268.00	604	428
Trading Account Securities	51,064.00	37,207	20,811
Securities Purch Under Resale Agree	25,708.00	12,291	23,321
MortgageBackedSecurities	#N/A	#N/A	#N/A
Federal Funds	#N/A	#N/A	#N/A
Other Securities	10,314.00	6,268	5,916
Other Investments	0.00	-	-
Loans - Net	92,247.00	86,626	86,772
Loans - Total	93,213.00	87,502	87,357
Reserves For Loan Losses	966.00	876	585
Investment In Unconsol Subsidiaries	0.00	-	-
Customer Liability On Acceptances	9,040.00	9,948	7,036
Real Estate Assets	0.00	-	-
Property Plant & Equipment - Net	1,738.00	1,666	1,505
Other Assets	14,891.00	19,832	11,015
Total Assets	214,181.00	181,461	163,588
Liabilities & Shareholders' Equity			
Total Deposits	140,386.00	120,677	110,626
Demand Deposits	26,134.00	16,121	11,039
Savings And Other Time Deposits	52,891.00	56,542	61,757
Foreign Office Deposits	61,361.00	48,014	37,830
Unspecified Deposits	#N/A	-	#N/A
Total Debt	37,502.00	25,061	28,517
Short Term Debt And Cur Port LT Debt	34,293.00	21,523	25,129
Long Term Debt	3,209.00	3,538	3,388
LT Debt Excl Capitalized Leases	3,209.00	3,538	3,388
Debt Capitalized Lease Obligations	0.00	-	-
Provision For Risks And Charges	#N/A	#N/A	#N/A
Deferred Income	0.00	-	-
Deferred Taxes	(236.00)	(370)	(264)
Deferred Taxes Credit	#N/A	#N/A	#N/A
Deferred Taxes Debit	#N/A	#N/A	#N/A
Deferred Tax Liab In Untaxed Reserves	#N/A	-	-
Other Liabilities	24,661.00	27,560	17,406
Total Liabilities	202,313.00	172,928	156,285
Non-Equity Reserves	0.00	-	-
Minority Interest	335.00	-	-
Preferred Stock	833.00	845	546
Total Common Equity	10,700.00	7,688	6,757
Common Stock	2,006.00	1,301	1,297
Capital Surplus	#N/A	#N/A	#N/A
Revaluation Reserves	0.00	-	-
Other Appropriated Reserves	#N/A	#N/A	#N/A
Unappropriated Reserves	#N/A	#N/A	#N/A
Retained Earnings	8,694.00	6,387	5,460
Equity In Untaxed Reserves	0.00	-	-
ESOP Guarantees	0.00	-	-
Unrealized Foreign Exchg Gain/ Loss	0.00	-	-
Unrealized Gain/Loss On Marketable Sec	0.00	-	-
Treasury Stock	0.00	-	-
Total Liabilities And Shareholders' Equity	214,181.00	181,461	163,588

Source: Worldscope, http://www.oclc.org/support/documentation/FirstSearch/databases/dbdetails/details/Worldscope.htm, accessed November 7, 2007.

Exhibit 4 The Toronto-Dominion Bank Income Statement (1997–1999)

TORONTO-DOMINION BANK (THE) Industry Group: National commercial banks	Total Return 1 Yr.(%) 12.92	
	Total Return 5 Yr. (%) 182.85	

Scaling Factor: Millions CAD	Y1999	Y1998	Y1997
Total Interest Income	10,874.00	9,997.00	7,826.00
Interest And Fees On Loans	7,594.00	7,490.00	6,310.00
Interest Income On Federal Funds	0.00	0.00	0.00
InterestIncome On Bank Deposits	512.00	334.00	225.00
Interest On Government Securities	0.00	0.00	0.00
Other Interest Or Dividend Income	2,768.00	2,173.00	1,291.00
Interest Expense - Total	7,893.00	7,056.00	5,004.00
Interest Expense On Bank Deposits	6,254.00	5,582.00	3,892.00
Interest Expense On Fed Funds	0.00	0.00	0.00
Interest Expense On Other Borrowed Funds	1,458.00	1,248.00	920.00
Interest Expense On Debt	181.00	226.00	192.00
Interest Capitalized	0.00	0.00	0.00
Net Interest Income	2,981.00	2,941.00	2,822.00
Non-Interest Income	4,809.00	3,197.00	2,650.00
Investment Income	#N/A	#N/A	#N/A
Foreign Exchange Income	0.00	0.00	0.00
Gains/Losses on Sale of Securities-Pretax	1,079.00	386.00	329.00
Non-Operating Interest Income	#N/A	#N/A	#N/A
Trading Account Income	679.00	298.00	270.00
Trusts And Fiduciary Income/Comm And Fees	942.00	866.00	785.00
Trust Income	0.00	0.00	0.00
Commission & Fees	942.00	866.00	785.00
Other Operating Income	2,109.00	1,647.00	1,266.00
Non Interest Expense	4,510.00	3,956.00	3,383.00
Staff Costs	2,483.00	2,167.00	1,826.00
Equipment Expense	567.00	498.00	453.00
Depreciation And Depletion	201.00	181.00	130.00
Taxes Other Than Income Taxes	0.00	0.00	0.00
Other Operating Expense	1,259.00	1,110.00	974.00
Provision For Loan Losses	275.00	450.00	360.00
Operating Income	3,005.00	1,732.00	1,729.00
Extraordinary Credit Pretax	#N/A	0.00	0.00
Extraordinary Charge Pretax	0.00	0.00	0.00
Other Income/Expense Net	1,122.00	0.00	0.00
Pretax Equity In Earnings	0.00	0.00	0.00
Reserves - Increase/Decrease	0.00	0.00	0.00
Pretax Income	4,127.00	1,732.00	1,729.00
Income Taxes	1,099.00	611.00	641.00
Income Taxes Domestic	#N/A	#N/A	#N/A
Income Taxes Foreign	#N/A	#N/A	#N/A
Deferred Income Taxes Domestic	#N/A	#N/A	#N/A
Deferred Income Taxes Foreign	#N/A	#N/A	#N/A
Income Tax Credits	#N/A	#N/A	#N/A
Minority Interest	5.00	0.00	0.00
Equity In Earnings	0.00	0.00	0.00
After Tax Other Income Or Expense	(42.00)	0.00	0.00
Discontinued Operations	0.00	0.00	0.00
Income Before Extra Items And Pfd Dividends	2,981.00	1,121.00	1,088.00
Extra Items And Gain/Loss Sale Of Assets	0.00	0.00	0.00
Income Before Preferred Dividends	2,981.00	1,121.00	1,088.00
Preferred Dividend Requirements	43.00	45.00	31.00
Net Income to Common	2,938.00	1,076.00	1,057.00

Source: Worldscope, http://www.oclc.org/support/documentation/FirstSearch/databases/dbdetails/details/Worldscope.htm, accessed November 7, 2007.

Exhibit 5 CT Financial Services Balance Sheet (1997–1999)

CT FINANCIAL SERVICES INC. Industry Group: Federal savings institutions		Total Return 1 Yr.(%) 18.73 Total Return 5 Yr. (%) 326.63	
Scaling Factor : Millions CAD	Y1999	Y1998	Y1997
Assets			
Cash And Due From Banks	735.00	421.00	344.00
Total Investments	15,820.00	13,489.00	12,371.00
Treasury Securities	7,478.00	6,373.00	5,838.00
Federal Agency Securities	#N/A	#N/A	#N/A
State And Municipal Securities	55.00	2.00	728.00
Trading Account Securities	#N/A	#N/A	#N/A
Securities Purch Under Resale Agree	513.00	652.00	592.00
MortgageBackedSecurities	2,115.00	1,985.00	675.00
Federal Funds	#N/A	#N/A	#N/A
Other Securities	1,658.00	1,976.00	1,166.00
Other Investments	4,001.00	2,501.00	3,372.00
Loans - Net	31,170.00	31,652.00	31,590.00
Loans - Total	31,385.00	31,874.00	31,590.00
Reserves For Loan Losses	215.00	222.00	275.00
Investment In Unconsol Subsidiaries	0.00	0.00	0.00
Customer Liability On Acceptances	#N/A	#N/A	#N/A
Real Estate Assets	741.00	789.00	720.00
Property Plant & Equipment - Net	391.00	393.00	357.00
Other Assets	1,468.00	1,131.00	816.00
Total Assets	50,325.00	47,875.00	46,198.00
Liabilities & Shareholders' Equity			
Total Deposits	42,372.00	40,811.00	40,394.00
Demand Deposits	18,000.00	17,004.00	16,145.00
Savings And Other Time Deposits	24,372.00	23,807.00	24,249.00
Foreign Office Deposits	#N/A	#N/A	#N/A
Unspecified Deposits	#N/A	#N/A	#N/A
Total Debt	2,806.00	2,206.00	1,920.00
Short Term Debt And Cur Port LT Debt	2,113.00	1,510.00	1,065.00
Long Term Debt	693.00	696.00	855.00
LT Debt Excl Capitalized Leases	693.00	696.00	855.00
Debt Capitalized Lease Obligations	0.00	0.00	0.00
Provision For Risks And Charges	#N/A	#N/A	#N/A
Deferred Income	#N/A	#N/A	#N/A
Deferred Taxes	0.00	(13.00)	(30.00)
Deferred Taxes Credit	#N/A	#N/A	#N/A
Deferred Taxes Debit	#N/A	#N/A	#N/A
Deferred Tax Liab In Untaxed Reserves	#N/A	#N/A	#N/A
Other Liabilities	1,929.00	1,866.00	1,061.00
Total Liabilities	47,107.00	44,870.00	43,345.00
Non-Equity Reserves	0.00	0.00	0.00
Minority Interest	150.00	150.00	150.00
Preferred Stock	213.00	213.00	234.00
Total Common Equity	2,855.00	2,642.00	2,469.00
Common Stock	549.00	549.00	549.00
Capital Surplus	#N/A	#N/A	#N/A
Revaluation Reserves	0.00	0.00	0.00
Other Appropriated Reserves	#N/A	#N/A	#N/A
Unappropriated Reserves	#N/A	#N/A	#N/A
Retained Earnings	2,306.00	2,093.00	1,919.00
Equity In Untaxed Reserves	#N/A	#N/A	#N/A
ESOP Guarantees	0.00	0.00	0.00
Unrealized Foreign Exchg Gain/ Loss	0.00	0.00	1.00
Unrealized Gain/Loss On Marketable Sec	0.00	0.00	0.00
Treasury Stock	0.00	0.00	0.00
Total Liabilities And Shareholders' Equity	50,325.00	47,875.00	46,198.00

Source: Worldscope, http://www.oclc.org/support/documentation/FirstSearch/databases/dbdetails/details/Worldscope.htm, accessed November 7, 2007.

Exhibit 6 CT Financial Services Income Statement (1997–1999)

CT FINANCIAL SERVICES INC. Industry Group: Federal savings institutions	Total Return 1 Yr.(%) 18.73	Total Return 5 Yr. (%) 326.63	
Scaling Factor: Millions CAD	Y1999	Y1998	Y1997
Total Interest Income	3,099.00	2,953.00	2,961.00
Interest And Fees On Loans	2,353.00	2,283.00	2,386.00
Interest Income On Federal Funds	#N/A	#N/A	#N/A
InterestIncome On Bank Deposits	#N/A	#N/A	#N/A
Interest On Government Securities	574.00	471.00	363.00
Other Interest Or Dividend Income	172.00	199.00	212.00
Interest Expense - Total	1,857.00	1,829.00	1,832.00
Interest Expense On Bank Deposits	1,664.00	1,666.00	1,702.00
Interest Expense On Fed Funds	0.00	0.00	0.00
Interest Expense On Other Borrowed Funds	#N/A	#N/A	#N/A
Interest Expense On Debt	193.00	163.00	130.00
Interest Capitalized	0.00	0.00	0.00
Net Interest Income	1,242.00	1,124.00	1,129.00
Non-Interest Income	962.00	891.00	870.00
Investment Income	#N/A	#N/A	#N/A
Foreign Exchange Income	#N/A	#N/A	#N/A
Gains/Losses on Sale of Securities-Pretax	67.00	82.00	44.00
Non-Operating Interest Income	0.00	0.00	0.00
Trading Account Income	#N/A	#N/A	#N/A
Trusts And Fiduciary Income/Comm And Fees	844.00	742.00	698.00
Trust Income	#N/A	#N/A	#N/A
Commission & Fees	844.00	742.00	698.00
Other Operating Income	51.00	67.00	128.00
Non Interest Expense	1,499.00	1,433.00	1,372.00
Staff Costs	854.00	758.00	659.00
Equipment Expense	211.00	233.00	209.00
Depreciation And Depletion	104.00	84.00	153.00
Taxes Other Than Income Taxes	34.00	37.00	28.00
Other Operating Expense	296.00	321.00	323.00
Provision For Loan Losses	165.00	135.00	162.00
Operating Income	540.00	447.00	465.00
Extraordinary Credit Pretax	0.00	0.00	0.00
Extraordinary Charge Pretax	0.00	0.00	0.00
Other Income/Expense Net	0.00	0.00	288.00
Pretax Equity In Earnings	0.00	0.00	0.00
Reserves - Increase/Decrease	0.00	0.00	0.00
Pretax Income	540.00	447.00	753.00
Income Taxes	168.00	127.00	223.00
Income Taxes Domestic	121.00	#N/A	#N/A
Income Taxes Foreign	#N/A	#N/A	#N/A
Deferred Income Taxes Domestic	47.00	#N/A	#N/A
Deferred Income Taxes Foreign	#N/A	#N/A	#N/A
Income Tax Credits	0.00	#N/A	#N/A
Minority Interest	10.00	10.00	12.00
Equity In Earnings	0.00	0.00	0.00
After Tax Other Income Or Expense	0.00	0.00	0.00
Discontinued Operations	0.00	0.00	0.00
Income Before Extra Items And Pfd Dividends	362.00	310.00	518.00
Extra Items And Gain/Loss Sale Of Assets	0.00	0.00	0.00
Income Before Preferred Dividends	362.00	310.00	518.00
Preferred Dividend Requirements	16.00	16.00	16.00
Net Income to Common	346.00	294.00	502.00

Source: Worldscope, http://www.oclc.org/support/documentation/FirstSearch/databases/dbdetails/details/Worldscope.htm, accessed November 7, 2007.

Exhibit 7 TD Canada Trust Scorecard

TD Canada Trust

2003 TARGET: 81.8

CSI Quarterly Report
BRANCH # 1020
KING & BAY PAVILION
MEASUREMENT PERIOD: AUG'03 to OCT'03

	Measurement At ... Level								
	Branch							*Regional*	*National*
	Year End 2002	Nov'02 to Jan'03	Feb'03 to Apr'03	May '03 to Jul '03	Aug '03 to Oct '03	Year Ending Oct '03	Net ** Change	Year End 2003	Year End 2003
Base: Total # Interviews	200	50	50	50	50	***200***		26934	194514
	%	%	%	%	%	%	%	%	%
Customer Satisfaction **:** Percent who give a rating of 6 or 7 on a 7-point numeric scale where 7=Excellent and 1=Poor									
Overall In-Branch	75.7	69.6	79.7	69.3	89.9	***77.1***	+1.4	81.5	85.6
At Teller*	76.9	72.3	77.5	70.0	92.9	***78.2***	+1.3	81.9	85.9
At Side-Counter+	70.8	58.3	88.9	66.7	77.8	***72.9***	+2.1	80.2	84.3
Customer Commitment: † Percent giving 4 or 5 rating based on 5 point scale									
Recommend TD/CT To Friend or Colleague†	68.6	78.0	75.1	65.0	81.6	***74.9***	+6.3	76.2	79.3
Continue using TD/CT Over Next 12 Months†	86.0	89.9	86.0	81.5	88.1	***86.4***	+0.4	88.4	90.6
Did The Teller/Representative (Side-Counter)...?									
Appreciate your business	86.6	90.2	91.8	85.6	95.6	***90.8***	+4.2	91.9	93.3
Process your transaction quickly*	95.0	92.7	95.1	97.4	100.0	***96.3***	+1.3	96.0	97.3
Have the ability to handle your request		96.0	98.1	95.7	95.7	***96.4***		95.8	96.7
Wait time acceptable	91.0	87.7	87.7	86.2	94.1	***88.9***	-2.1	84.8	89.9
Give you his/her individed attention	93.4	91.8	87.7	98.1	97.8	***93.8***	+0.4	91.6	95.1
Make you feel like a person not number*		92.5	94.9	94.9	100.0	***95.6***		92.9	95.1
Smile	89.1	96.0	92.3	90.0	96.0	***93.6***	+4.5	91.8	93.6
Handle accts & transactions accurately+		88.9	88.9	88.9	100.0	***91.7***		95.0	95.8
Process your transaction accurately*		97.4	95.1	95.1	97.4	***96.2***		96.6	97.6
Appear knowledgeable about services		90.0	89.7	89.9	94.0	***90.9***		91.6	93.5
Show interest in you as a person+	88.2	77.8	91.7	88.9	88.9	***86.8***	-1.4	89.2	92.1
Promptly acknowledge your presence+	85.4	88.9	69.4	100.0	100.0	***89.6***	+4.2	84.2	86.7
Greet you pleasantly	96.6	98.1	100.0	97.9	100.0	***99.0***	+2.4	96.7	97.8
Encourage you to ask questions+	86.1	77.8	72.2	77.8	58.3	***71.5***	-14.6	73.7	75.7
Explain services ...easy to understand+	84.0	88.9	88.9	88.9	100.0	***91.7***	+7.7	92.2	93.4
Treat you in a respectful manner	98.0	97.8	97.8	97.8	100.0	***98.4***	+0.4	97.8	98.6
Address you by name	70.9	62.4	63.8	65.6	82.2	***68.5***	-2.4	71.9	73.2
Thank you for your business	84.9	90.0	87.5	85.9	90.0	***88.4***	+3.5	87.6	86.8
Give advice or...based on your needs+	86.1	77.8	61.1	69.4	69.4	***69.4***	-16.7	77.6	79.6
Conduct banking privately	93.6	93.7	91.6	93.8	96.0	***93.8***	+0.2	92.4	94.6
Recommend additional services+	72.9	61.1	55.6	77.8	50.0	***61.1***	-11.8	54.8	53.3

* Base: Among those who completed a transaction with a teller

\+ Base: Among those who completed a transaction at the side-counter. CAUTION: The number of side counter interviews per branch is extremely small - about 10 interviews per quarter.

** Net Change is the Year Ending Oct '03 minus the Year End 2002 results.

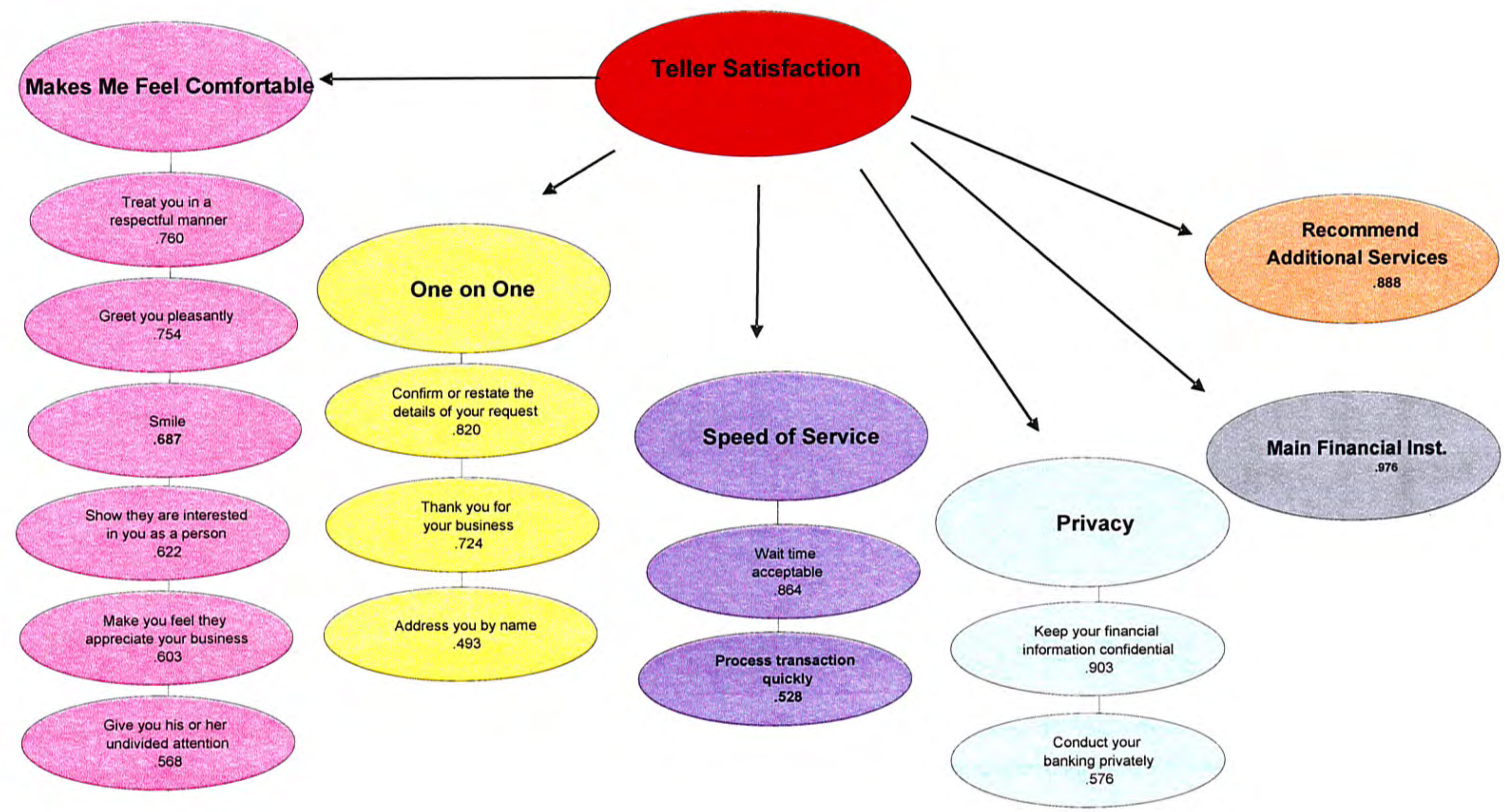
Source: Company documents.

Exhibit 8 CSI Analysis Customer Satisfaction and Branch Profitability Variables

Customer Satisfaction	*Branch Profitability*
CSI Data	**Branch Financials**
Nov 01 to Oct 02 monthly data	Nov 01 to Oct 02 monthly data
Approximately 200 interviews per branch	Gross Contribution
80% teller, 20% side counter	Net Retail Volume Growth
Overall satisfaction	Branch Efficiency
Likelihood to Recommend	
Likelihood to Continue	
Delivery of Staff Behaviors	
Customer Variables	**Branch Variables**
No of Active Customers	Market Type
% High-Value Customers	Psyte Clusters
Customer Tenure	Mix of Personal, Business, Commercial Account
Customer Demographics	Customer Traffic Volume

Source: Company documents.

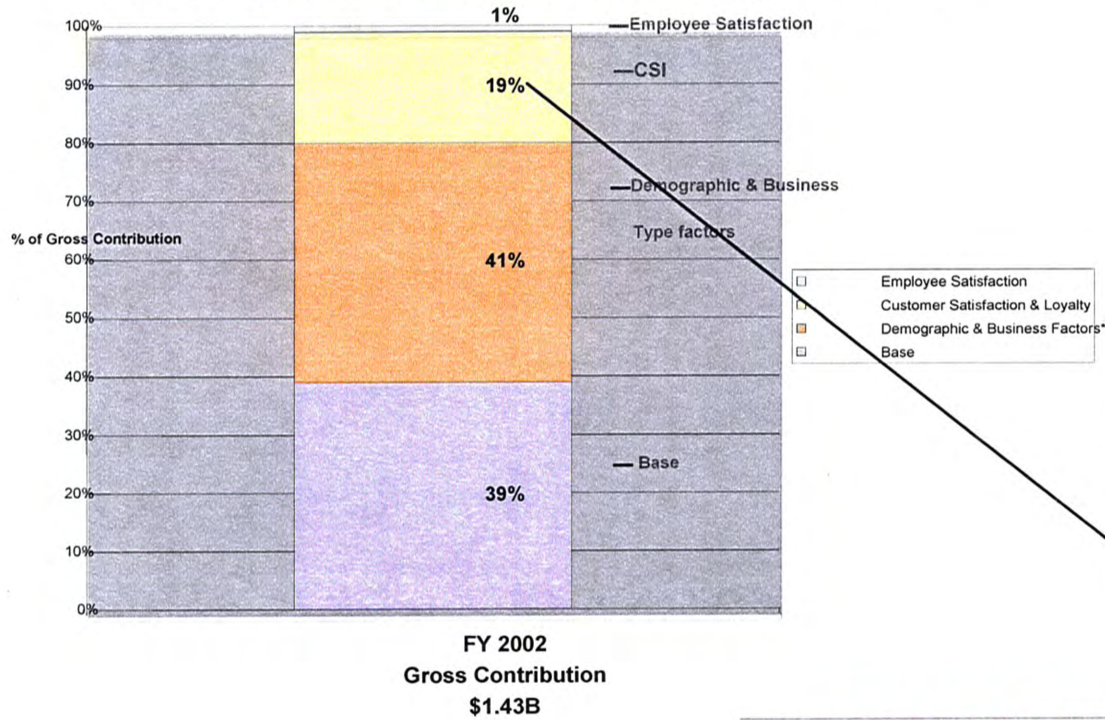
Exhibit 9 Customer Satisfaction "Teller" Groupings with Factor Analysis Scores



Source: Company documents.

Exhibit 10 Gross Contribution Decomposition

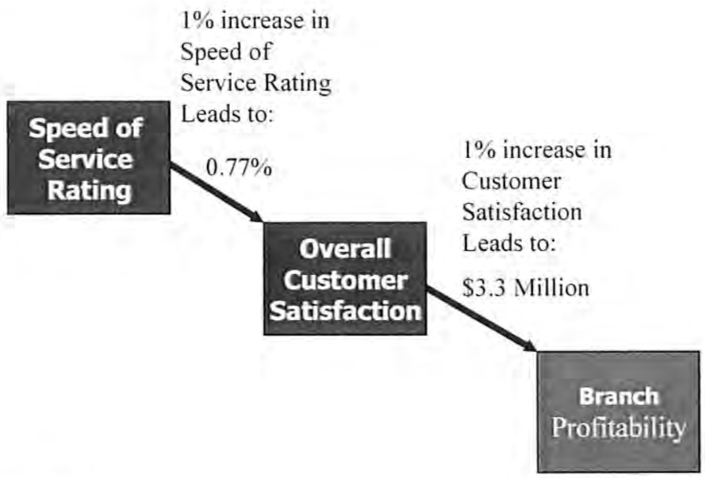
19% of 2002 gross contribution is attributable to customer satisfaction



	Contributions	In $ millions (MM)
Teller Makes Me Feel Comfortable	5.5%	$ 79
Teller One on One	3.0%	$ 43
Teller Speed of Service	4.4%	$ 63
Teller Privacy	1.8%	$ 25
Teller Recommend Additional Services	0.2%	$ 3
Side Counter Makes Me Feel Comfortable	2.5%	$ 36
Side Counter One on One	1.4%	$ 20
Side Counter Develop the Relationship	0.1%	$ 1

Source: Company documents.

Exhibit 11 Example: Linking Speed of Service to Profitability



Source: Company documents.

Exhibit 12 Marginal and Maximum Gross Contribution Impacts

Factor	Incremental 1% Point on Gross Contribution	Incremental 1% Point on Overall Satisfaction	Incremental Effect of Max Change on Gross Contribution	Factor Mean
Makes Me Feel Comfortable	$5,411,841	1.65%	$13,324,366	96.4%
Speed of Service	$2,545,801	0.77%	$10,127,387	93.5%
One on One	$1,465,396	0.44%	$8,443,498	87.7%
Recommend Add'l Services	$748,558	-	$8,218,107	35.1%
Privacy	$1,972,292	0.60%	$3,175,384	97.7%
Makes Me Feel Comfortable	$1,261,877	0.38%	$5,504,142	96.2%
One on One	$482,155	0.15%	$3,905,754	85.4%
Develop the Relationship	$370,463	-	$3,709,436	69.3%
Combined Incremental Effect	$14,258,383		$56,408,074	
Combined Incremental Effect	+1%		+4%	

Notes:
1. Incremental total contribution based on 2002 gross contribution.
2. Maximizing CSI performance defined as achieving the level of the top ranked branch.
3. Factor Mean is the average % 'Yes' of the attributes comprising the factor and represents the average TD Canada Trust branch satisfaction.

* 1% Change is defined as a 1 percentage point growth in respondents who answer "Yes"

** 90% Confidence Interval for Incremental Total Contribution is $22,826,534 to $98,558,827

Source: Company documents.

Exhibit 13 Weighting of Branch and Individual Objectives by Position

Position	Branch Profitability	Branch Growth	Branch CSI	Branch Sales	Managerial Assessment	Individual Sales	Total
Customer Service Representative	15%	15%	40%	--	30%	--	100%
Customer Relations Coordinator (Greeter)	25%	10%	50%	--	15%	--	100%
Customer Service Officer	25%	20%	40%	--	15%	--	100%
Sales & Service Administrator 1 (Pre-Management Level Position)	35%	10%	30%	--	25%	--	100%
Sales & Service Administrator 2 (Management Level Position)	35%	10%	30%	--	25%	--	100%
Financial Service Representative	20%	20%	20%	--	15%	25%	100%
Financial Advisor	10%	20%	20%	--	10%	40%	100%
Account Manager (Agriculture/ Rural)	10%	10%	20%	--	20%	40%	100%
Small Business Advisor	10%	15%	20%	15%	10%	30%	100%
Manager Customer Service 1 (Pre-Management Level Position)	25%	10%	45%	--	20%	--	100%
Manager Customer Service 2 (Management Level Position)	25%	10%	45%	--	20%	--	100%
Manager, Customer Service & Sales	20%	20%	20%	--	20%	20%	100%
Manager, Financial Services	25%	25%	25%	--	25%	--	100%
Branch Manager 1,2,3	25%	25%	25%	--	25%	--	100%

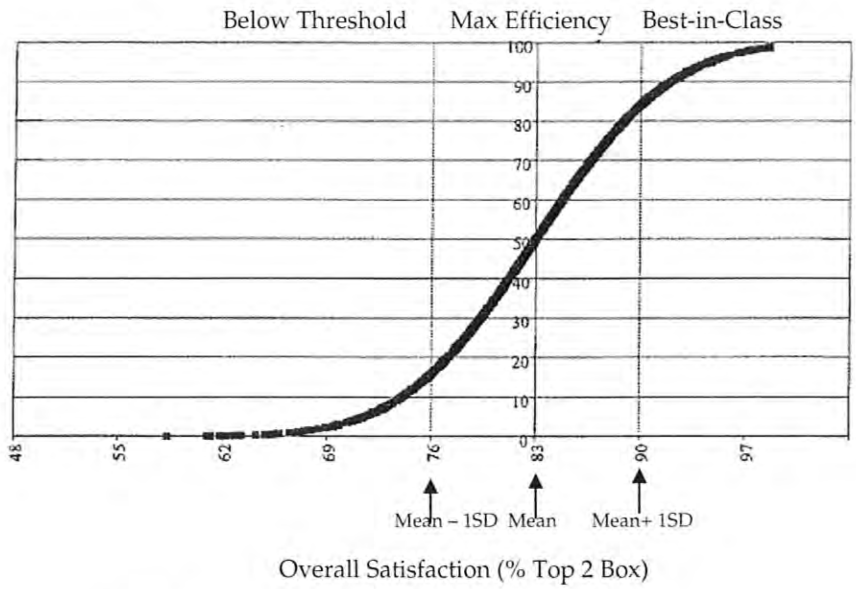
Source: Company documents.

Exhibit 14 Branch incentive plan award percentages for various positions

Position	Threshold Award	Target Award	Maximum Award
Customer Service Representative	2.0%	4.0%	8.0%
Customer Relations Coordinator (Greeter)	2.0%	4.0%	8.0%
Customer Service Officer	2.0%	4.0%	8.0%
Sales & Service Administrator 1 (Pre-Management Level Position)	2.0%	4.0%	8.0%
Sales & Service Administrator 2 (Management Level Position)	3.5%	7.0%	18.0%
Financial Service Representative	3.25%	6.5%	17.0%
Financial Advisor	6.0%	12.0%	Uncapped
Account Manager (Agriculture/Rural)	2.0%	12.0%	40.0%
Small Business Advisor	2.0%	12.0%	40.0%
Manager Customer Service 1 (Pre-Management Level Position)	2.0%	6.5%	17.0%
Manager Customer Service (Management Level Position) 2	4.0%	8.0%	21.0%
Manager, Customer Service & Sales	4.0%	8.0%	21.0%
Manager, Financial Services	4.5%	9.0%	24.0%
Branch Manager 1,2,3	5.5%	11.0%	33.0%

Source: Company documents.

Exhibit 15 Branch Distribution According to Customer Satisfaction Ratings (2003)



Source: Company documents.

Exhibit 16 New TD Canada Trust Scorecard

June 2005 — Teller CSI — 7/13/2005 7:00:00 PM

CONFIDENTIAL

Region: CENTRAL GTA DIV PERS SLS PSC0841 — PSC0841
District: TORONTO CORE REGION GTC 7011071 — 7011071
Unit: TOR K&B TD CTR CNSL GTC 01 1020 — 0011020

	Teller CSI	YTD	Performance Levels (1)	(2)	(3)	Current Tri-Monthly	Previous Tri-Monthly	vs Previous Tri-Monthly
1	CSI Score	86.9				82.5	85.0	(2.5)
2	Satisfied (Bottom 3 Box)	1.9				0.0	0.0	0.0
3	Likely to recommend	79.8				73.7	75.7	(2.0)
4	Likely to continue	90.7				87.5	87.5	0.0
5	Make you feel they appreciate your business	91.6	*			90.0	92.5	(2.5)
6	Process your transaction quickly	96.3	*			95.0	95.0	0.0
7	Have the ability to handle your request	96.3		*		97.5	100.0	(2.5)
8	Wait time acceptable	91.6		*		90.0	90.0	0.0
9	Greet you pleasantly	97.2		*		97.5	100.0	(2.5)
10	Address you by your name	77.6		*		67.5	70.0	(2.5)
11	Give you his or her undivided attention	96.3		*		97.5	95.0	2.5
12	Thank you for your business	86.9	*			82.5	85.0	(2.5)
13	Process your transactions accurately	97.2			*	100.0	97.5	2.5
14	Treat you in a respectful manner	98.1			*	100.0	100.0	0.0
15	Conduct your banking privately	93.5		*		97.5	90.0	7.5

(1)-Need to Improve (2)-Room to Improve (3)-Maintain

Source: Company documents.

Exhibit 17 Thresholds for Overall Customer Satisfaction and CSI Factors

	Below Threshold	Average	Best in Class
Teller Makes Me Feel Comfortable	94.20	96.40	98.60
Teller Speed of Service	89.70	93.50	97.30
Teller One on One	83.10	87.70	92.20
Teller Recommend Additional Services	26.30	35.10	43.80
Teller Privacy	95.80	97.70	99.60
Side Counter Makes Me Feel Comfortable	93.00	96.20	99.30
Side Counter One on One	79.40	85.40	91.40
Side Counter Develop the Relationship	61.70	69.30	77.00
Overall Satisfaction	76.00	83.00	90.00

Source: Company documents.

Note: Table represents average raw score % "yes" responses on the attributes that comprise each factor.
Overall satisfaction is % top 2 box and composite of teller and side counter.
Branches below 76% are under-delivering and require further analysis.
Branches above 90% are network benchmarks.

Exhibit 18 Branch Report: Branch 532

Branch Report: Branch 532

Factor	Effect Area	Action Required
SC Makes Me Feel Comfortable	Below Threshold	Must Fix
SC One on One	Maximum Efficiency	Room to Improve
SC Develop the Relationship	Diminishing Returns	Maintain
TELL Makes Me Feel Comfortable	Below Threshold	Must Fix
TELL One on One	Diminishing Returns	Maintain
TELL Speed of Service	Below Threshold	Must Fix
TELL Privacy	Maximum Efficiency	Room to Improve
TELL Recommend add'l services	Maximum Efficiency	Room to Improve

Areas Branch 532 Should Focus On

Focus on its attention to those factors within the Room to Improve areas to generate the most profit:
- SC One on One
- Teller Privacy
- Teller Recommend Add'l Services

From monthly CSI reporting identify specific behaviors possibly causing the Must Fix scores in:
- SC Makes Me Feel Comfortable
- Teller Makes Me Feel Comfortable
- Teller Speed of Service

Maintain those already high factors:
- SC Develop the Relationship
- Teller One on One

Source: Company documents.

Endnotes

[1] "Canada gives green light to trust takeover," *Financial Times*, February 1, 2000, via Factiva, accessed September 19, 2007.

[2] "Canada's Financial Services Sector," *Department of Finance Canada*, September 1, 2000, http://www.fin.gc.ca/toce/1999/banke.html, accessed September 19, 2007.

[3] "The banks, one year later," *Maclean's*, December 19, 1999, via ProQuest, accessed September 13, 2007.

[4] "Canada Finance—Toronto Dominion takeover of Canada Trust approved," *Economist Intelligence Unit—ViewsWire*, February 9, 2000, via Factiva, accessed September 21, 2007.

[5] "60 IT jobs squeezed out in TD Canada Trust merger," *The Globe and Mail*, April 11, 2001, via Factiva, accessed September 18, 2007.

[6] "Canada's Banks Question Their Cocoon—Gains From Wider Activity May Outweigh Protected Status," *The Wall Street Journal*, April 16, 2001, via ProQuest, accessed November 8, 2007.

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[8] Ibid.

[9] "TD plans smoother merger steps after complaints about standardizing accounts with CT, bank begins branch rebranding," *Reuter News Agency*, April 6, 2001, via Factiva, accessed September 17, 2007.

[10] "TD set to start integrating branches—CT merger a likely blueprint for banks," *The Globe and Mail*, February 1, 2001, via Factiva, accessed September 17, 2001.

[11] "Merger mania; TD Bank takeover of Canada Trust to get federal nod," *Kitchener-Waterloo Record*, January 31, 2000, via Factiva, accessed September 20, 2007.

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[13] Ibid.

[14] "Life in the hot seat: TD Canada Trust's Chris Armstrong is charged with branding Canada's first major merged bank," *Marketing Magazine*, September 25, 2000, via ProQuest, accessed November 1, 2007.

[15] Ibid.

[16] "Taking marketing to the bank: TD Canada Trust maneuvered seamlessly in 2001 through the marketing minefield of the biggest merger in Canadian financial services history," *Marketing Magazine*, February 11, 2002, accessed November 8, 2007.

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FRANCES X. FREI

Commerce Bank

The hardest thing about becoming a big bank is not becoming a big bank.
—Douglas Pauls, chief financial officer

Introduction

Deborah Jacovelli looked up from her desk as a big pumpkin, a Dalmatian, and a masked crusader ran by her office. It was business as usual at Commerce University, Commerce Bank's Cherry Hill, New Jersey training center, but it was also Halloween on a rainy day in 2002 and the employees were getting into it with their usual enthusiasm. As dean of Commerce University, Jacovelli had witnessed the development of many innovative methods for energizing the company's employees. Halloween costumes and people decorating their cubicles, hardly typical bank behavior, were not at all strange at Commerce. Jacovelli noticed that someone had adorned the giant "C" character outside her office with a cape.

It took a special kind of person to deliver the high-quality customer service Commerce Bank promised. Happy customers were the bank's top priority. An internal system of incentives and cultural training implemented by Jacovelli and her coworkers to reinforce a deep commitment to "*WOW!*ing" customers included awards, commendations, and compensation, as well as intense training and education. "We want to exceed customers' expectations every time they visit our bank," insisted Commerce Chairman and CEO Vernon W. Hill II. Commerce referred to its branches as "stores" and looked for operational comparisons to retailers such as Starbucks and Home Depot rather than the bank next door. "How does Starbucks get you to pay $6 for a cup of coffee?" mused Hill. "It's the retail experience. That's what we care about and it's paying off. Some critics say our stock price is high for the banking sector, but if you look at other power retailers and compare our multiples, we are undervalued." Since 1990, Commerce's stock price had increased twenty-fold (**Exhibits 1** and **2** present company financials.)

Because Commerce encouraged customers to visit its branches, or stores, it wanted the experience to be positive even when the branch was busy. A handful of competitors were beginning to copy some of Commerce's extra service features, such as weekend and evening hours, prompting the bank to be mindful of staying one step ahead. With coffee and newspapers already available to waiting customers, the bank considered adding entertainment to the lobbies of its stores. "Retailtainment," proposed in 2002, was Commerce's latest idea for "*WOW!*ing" customers. Among the ideas piloted

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Professor Frances X. Frei and Research Associate Corey Hajim prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

as part of this "atmosphere enhancement" concept were free hot dogs, a guitar player and juggler, and an employee on roller blades dressed as a big "C" character. While not completely off the map for a bank that encouraged its employees to dress up in costume, this latest program concerned Jacovelli. She wondered whether customers really wanted to be entertained when they visited a bank branch. Even with a program limited to Fridays, if execution at different branches varied, would the consistency of great service be put at risk? Had the bank, Jacovelli worried, finally taken the retail experience a step too far?

The Banking Industry

Products

Retail banks offered deposit and loan products, which were widely considered to be commodity products. Deposit products were a way for customers to store their money with the institution in exchange for access to the payment system (through electronic transfers and checks), interest on their money, and contact with the bank service infrastructure (branches, ATMs, call center, and Internet). Deposit products tended to be more transaction oriented than loan products, although not every deposit product was associated with ongoing transaction. For example, in the case of certificates of deposit, a customer agreed to store money with the bank for a set amount of time at a higher interest rate than a typical, "demand" deposit account.

Banks typically had a dozen or more types of checking accounts distinguished by a variety of characteristics including minimum balance required to avoid fees, channel access, checks that could be written free of charge, and overdraft protection.[1]

In 2001, the banking industry loaned almost 90% of its deposit base. In addition, growth in both deposits and loans was about 20% over the period of 1998 to 2001. (See **Exhibit 4a** for the consolidated balance sheet for the banking industry.) Large institutions that experienced larger than average growth typically accomplished this through mergers and acquisitions.

Two important trends in the industry had evolved. The first was a push to increase the "cross-sell" of products—the number of products each customer used. Although the industry did not formally track this number, on average, customers tended to hold 1.5-2.5 products at an institution. Most companies had cross-sell goals that were significantly higher than this level. The second trend was towards growing revenues from fees customers paid for certain transactions and functionality. From 1998 to 2001, fee revenue, also known as non-interest income, had increased at 27%, a much higher rate than interest revenue, or interest income, which grew at 11% (**Exhibit 4**).

Service

Banks typically used demographics such as age, income, and geographic location to help segment customers. More recently, many banks had been calculating individual customer profitability, used in part to help determine how to differentiate service amongst customers. Customer satisfaction with the banking industry had historically been quite low, with satisfaction being significantly higher for the smaller credit unions (**Exhibit 5**).

[1] Overdraft protection allowed customers to write a check over their current account balance, whereby the bank then made a short-term loan to cover the difference.

A retail bank could lose up to a third of its customer base each year to attrition. Even the best performers lost 15%. By far the largest attrition occurred in the first year of a banking relationship. A study of the banking industry found that 34% of customers that leave a bank indicated that they did so out of dissatisfaction with steep fees and fee surprises, poor service, and errors. Thirty-four percent left as a result of a geographic move, primarily because they were outside the reach of current bank branch locations. Fifteen percent of customers left because of availability of more convenience elsewhere such as longer hours.[2]

Distribution

Customers selected their bank for a variety of reasons. The decision was often heavily influenced by proximity of a local branch. In response, banks created enormous branch networks, with the number of branches increasing even as the number of banks decreases (see **Exhibit 3b**). Many branches changed hands as banks merged, either becoming part of the merged entity, or sold off to another bank after a merger due to redundancy.

Banks also created large ATM networks. Customers could access their bank's ATM for free and other bank's ATMs for a fee or sometimes for two fees—one by the owner of the ATM and one by the customer's bank for processing the out-of-network transaction. Originally ATMs had been considered cost centers, but due to the ability to generate fee income, ATMs were increasingly viewed as profit centers.

In addition, virtually every bank had a call center open 24 hours a day, 7 days a week, as well as a voice response unit (VRU) whereby customers could execute an increasing number of transactions via the telephone without having to talk to a live agent. By 2002, Internet banking was commonplace, providing customers the ability to view balances, move money between accounts, and pay bills electronically, which often incurred a $5 monthly fee.

As a result of the lower marginal cost associated with the electronic channels, most banks actively encouraged customers to move their transactions from full-service channels to self-service channels. Banks strongly advertised the availability and convenience of the electronic channels, offered monetary incentives for using the channels, and occasionally monetary penalties for using the more expensive channels (e.g., charging $3 to visit the teller).

Employees

Front-line employees in retail banks were often selected for their ability to perform repeated tasks, interact with customers, and their willingness to accept relatively low wages. Training primarily consisted of learning about bank-specific policies and procedures as well as the various features amongst the dozens of deposit and loan products available at any point in time. The latter became especially important after mergers, when customers from one institution where often forced into new products with unfamiliar attributes. Compliance with processes and understanding of specific product attributes was paramount in the industry. Key measures of performance were volume of calls handled and number of transactions processed.

[2] David Dove and Chuck Robinson, "Mind the Back Door While you Greet New Customers," *American Banker*, August 22, 2002.

The Commerce Story

When Hill founded Commerce Bank in 1973, he was determined to be different. "The world," he reasoned, "did not need another 'me-too' bank. I had no capital, no brand name, and I had to search for a way to differentiate from the other players." With $1.5 million he started a community bank in southern New Jersey and since had grown it, without acquisitions, into Pennsylvania, Delaware, and New York.

Hill created a retail franchise with branches typically open from 7:30AM-8:00PM during the week and modified hours on Saturday and Sunday. If the branch was in a busy location, its drive-through window might be open as late as midnight. Or, more precisely, ten minutes after midnight, as stated in the company's 10-minute rule, which asserted that branches should open 10 minutes early and stay open 10 minutes late.

When customers came into branches to open a checking account, they were treated with outgoing, friendly service. After the customer selected from the four different checking accounts (**Exhibit 6**), Commerce routinely gave a free gift for opening the account.

Deposit growth had averaged over 30% per year since 1996. In 2001 alone Commerce deposits grew by almost 40% (**Exhibit 2**) while its households grew by 20%. By comparison, cumulative deposit growth in the United States was 5% in 2001 (**Exhibit 4**). Hill reflected on the Commerce approach:

> Other banks decided to push consumers out of the branch because it is the high-cost delivery channel. They wanted to push them online. We totally reject that. You can't name me one retailer in this country that has pushed people where they don't want to go and succeeded. But the banks decided to push to electronic delivery, and they have totally failed. Our model is, we are going to give you the best of every channel knowing you are going to use all of them. The result is not only do we have the highest deposit-rate growth in this country by a long factor, but our online usage is 34%, which is higher than Wells Fargo.
>
> I don't have to make a sale to you every day. Once you open your account I am making money on your balances. The big-bank attitude sees a customer as a cost, not a revenue generator. I don't see it that way.
>
> You cannot find me any retailer who has driven store count down and has survived, and yet banks think they can drive customers out of their branches and still keep their business. I find that very hard to understand. We have some branches that get 100,000 customer visits a month; the average branch gets 40,000. As a comparison, an average McDonald's gets 25,000 per month.

Growth

To Commerce, New York City represented an enormous opportunity. "Everyone will tell you that New York is the most over-banked market in the country," Hill said. "I think it is the most under-banked market in the country. There are $500 billion in deposits in New York." Commerce did not enter its newest market quietly. Commerce spent $500,000 per branch on promotion, five times its usual spend, which included direct mailings, ads on subway and phone kiosks, and with the help of street vendors, 10,000 hot dogs given away wrapped in Commerce napkins.[3] Success was immediate. Commerce broke even in half the time it usually did, even with four times higher costs than any other region.

Hill maintained that the business should continue to grow organically. "No one has built a power retailer in this country through mergers and acquisitions," he emphasized. "You can only build a delivery model like this from scratch. Mergers and acquisitions are cost-cutting devices at their heart, and the merger of cultures and the dilution of brand is a formula for failure. Every big bank merger in this country has failed." In Hill's view, "it's easier to build a bank than to fix one."

It had taken 18 years for Commerce to grow to $1 billion in deposits, but it now surpassed this amount in individual quarters. Commerce expected to ultimately reach $100 billion in deposits and total 1,000 locations, from Washington, D.C. to Boston. Commerce's success was not limited to deposit growth. The bank's net income doubled from 1998-2001, compared with 20% for the industry as a whole. Doug Pauls, Commerce's chief financial officer, recalled the projections he saw when he came on board: "I am an accountant by trade and therefore a little conservative by nature, so when I looked at the projections in 1994 after I arrived here I thought they were pretty aggressive. But I wish I had that original plan, because we have completely blown that away."

Debits and Credits

Deposits

"We believe the value of a bank is not its loan base," Hill explained, "but rather the deposit base, what we call core deposits. Those are deposits that come to you for non-rate reasons. We are generally the lowest ratepayers in every market." Commerce's deposit rates were often half a percent lower than those of competitors.

Commerce's focus on its consumer business was unusual for the banking industry. Commerce generated more than half its deposits from its consumer business, compared with most banks whose consumer business was closer to a third of overall business. Hill observed:

> Banks had given up on growing altogether because they thought you had to pay the highest deposit rate to get growth. The big players decided in the late '80s, early '90s that it was too much trouble gathering and growing deposits on the consumer side. On the one hand, they began to fund themselves in the wholesale market; on the other hand, they began to cut costs in the retail network.

Pauls added: "When people ask Vernon if he is concerned about competition, he says not really, because they are fighting an air war while we are winning the ground war at the store level. We can't lose sight of that. Deposit growth at the store level is the basis of everything we do."

A branch network with longer hours inevitably has higher costs, which readily showed up in the expense ratio of a bank.[4] "A low expense ratio is a minus, not a plus," Hill emphasized. "The guys with a low expense ratio are every day disinvesting in their business." Hill had committed to investing in providing service in his branches after asking customers what they wanted. "We asked

[3] Chuck Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002, p. 91.

[4] Expense ratio is the percentage of income spent on operating expenses; it is a common measure of a bank's cost structure.

people, 'Why do you open a new account?'" Hill recalled. "Three percent of people said they wanted the highest rate; 62% said they picked a bank for service, convenience, and those kinds of things. Well, the competition is competing on the 3%; we decided to compete on the 62%."

Commerce looked for ways to save money, but not by counting savings on the income statement; instead it gave back to customers. Hill described this strategy:

> Every time Wal-Mart beats a supplier down to get a better deal they don't take that extra and add it to the bottom line; they improve the value proposition to the customer. This year we saved millions in expenses by switching ATM contracts, which we invested back to our customers. We could have taken that right to the bottom line, but what we decided to do is eliminate our fees to our ATM and check cards for the entire company. We don't charge for our cards, we don't charge for transactions, and in New York City if you use someone else's machine and they charge you a dollar and a half, we give you that dollar and a half back.[5] That is what a power retailer does. You use your competitive advantage to get stronger, not to make more money.

Loans

Loans made by Commerce were assigned to the branches that serviced the customers. The branches also received credit for the deposits. This was not the case across the industry. Falese described the more typical structure:

> At Fleet if the health-care lending group produces deposits they keep the credit in their group, and yet the branch has to service the account. The Fleet branch manager hates the health-care manager because the branch has to service the account and gets no credit. At Commerce the branch managers love the health-care bankers because the branch gets the account credit. That little adjustment entirely changes the dynamics.

Commerce's loan-to-deposit ratio was significantly below the industry average, and loans were considered carefully. "We don't make enough money in terms of the spread to justify taking credit risk," Falese explained. "The customer's ability to repay is the most important thing. Some of our best loans are the ones we did not make." Added Pauls: "The way we look at credit and credit quality is a lot tougher [than our competition]. Deals that would get approved elsewhere might not get approved here." Commerce focused most of its lending on commercial real estate projects, home mortgages, and consumer loans.[6]

Loan customers were encouraged to open deposit accounts with Commerce. For Falese, it was policy. He explained:

> Most other banks are driven by loans. My attitude is no deposit, no loan. We decentralize the delivery of the loan so that at some point you have to come in to the branch and sign the papers. The loan officer is also the branch manager. And that is when we encourage you to let us manage your deposits as well. My job is to make sure we make sound loans that get repaid and at the same time that we generate core deposits.

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[5] Reimbursement of ATM charges up to $5 per month.

[6] Jay Palmer, "Service Master," *Barron's*, January 28, 2002.

Not Customers, Fans

"We're not here to satisfy customers, we're here to blow them away," remarked John Manning, one of Commerce's most well-known employee trainers. "If you talk to our customers, they don't like us, they love us." Hill corroborated: "People buy our products because they trust our brand." Added Pauls:

> I'll go out to lunch around here and be in line at a Wendy's and someone in front of me will see my Commerce pin and start talking about how great Commerce Bank is. They love the fact that people know them when they walk in, that they are treated well; they are so happy with us they can't believe it. For one of our advertisements we used real customers, and the people who were directing the commercials marveled at how much these customers wanted to tell our story and how they felt about the institution.

Commerce branches were built to be inviting, with floor to ceiling windows and ample parking. (See **Exhibit 7**.) Commerce branches were replicated with remarkable consistency. "We know every screw in the model," Hill said. Most branches were built from scratch for about $1 million. With few exceptions, they had the same white-brick exterior capped with a black metal roof, the same black-and-white marble, the same no-frills checking and savings accounts, and the same lollipops and dog biscuits. "It makes life easier for customers," says chief marketing officer John Cunningham. "They know what the deal is wherever they visit one of our banks."[7]

For Commerce, deciding where to put a branch was just as important as what the building looked like. Hill sought a corner that was busy, but not too busy, with a good residential and commercial mix. Ultimately, Hill, who was also part owner of 45 Burger Kings in the Philadelphia suburbs, made the call himself, a decision that he insisted has more to do with gut feel than with demographic research. Usually, though, it's in the competition's backyard. If a competitor closed, the staff at the nearby Commerce branch was awarded $5,000.[8] Commerce's branches broke even within a year to 18 months. The average bank took three years.

Commerce had several customer-centric programs instilled in its branch culture. "I think extended hours started down the [Jersey] Shore, to be able to service people who were down there for the weekend," Pauls recalled. "Then we realized that it would make sense at all our branches." Hill explained. "My competitors think we did it so that people could bank with us on Sunday. If no one ever banked with us on Sunday the initiative would still be successful, because it sent a message to the customer: I am always there for you." When it rained, bank employees often escorted customers to their cars under Commerce umbrellas. The company gave out 300,000 pens a month as well as dog biscuits and red Commerce lollipops at drive-through banking windows. Hill made no apologies for spending money on these sorts of things:

> If you think like a retailer, then you're constantly coming up with ways to enhance the customer experience. Like the phones we added to Commerce ATM machines in case customers need to reach the call center. Or the 'check view' feature on the bank's Web site that allows customers to see an image of the front and back of a check a day after it has been deposited. Or the bright-red Penny Arcades in the lobby.

When Hill learned that other banks had started refusing to accept large numbers of coins or were charging customers to do so, he saw an opportunity.

[7] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

[8] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

> We said, 'We're going to spend $10 million to take your coins.' The Penny Arcade is more than a mere convenience. The real appeal—and the payoff—is that it's fun. Kids want to use it. Pack rats need to use it. People waiting in line at the teller counter can't help but watch when someone steps up to the machine lugging a coffee can filled with coins. In its own small way, the Penny Arcade transforms the bank into a more interesting and appealing place. And that is how you create traffic.

In 2001, Commerce's Penny Arcades handled 750,000 transactions, which totaled $71.7 million. The machines accepted coins and returned a receipt that could be handed to any teller in exchange for bills. There was no charge for the program, for customers or non-customers. Falese called it "Marketing 101": "If customers come, keep doing it."

Up until 2001, Carole Robbins, a new Commerce customer and a conference planner in Manhattan, was perfectly happy with her bank, but that was before it was acquired by Citibank. "Why am I switching from the meanies over there?" asks Robbins, as she glances over at the Citibank across the street from the new Commerce branch at 55th Street and Sixth Avenue. It was 8:15AM and Robbins had already taken care of her banking for the day. "If I treated my customers the way they treated me, I'd be out of business." In fact, mergers have been an enormous source of deposit growth for Commerce—when other bank's merge, Commerce's deposits tend to increase dramatically (**Exhibit 8**.)[9]

"[Commerce] is a blast from the past: a bank with an old-fashioned approach to service," continued Robbins. "There's a different attitude here, like we're all in this together. But time will tell. All restaurants are good in the beginning too."[10]

WOW!

We're asking you to forget the way you delivered your skills at other banks.

—Vernon Hill, chief executive officer[11]

Good service had a name at Commerce Bank; it was "*WOW!*" Nine people had gotten together in 1994 and developed the program. Jacovelli explained:

> We needed a framework for teaching folks service, so we came up with the SMART principles [**Exhibit 9**]. Then we decided we needed to be able to measure the impact of that service on both external and internal customers. Now the program is called "managing for *WOW!*"—our terminology for process improvement. All offices have quality-assurance results that they have to live by. As people meet their goals or exceed them there are celebrations.

WOW! stickers, little red Cs that were awarded to employees who *WOW!*ed customers either internally or externally, could be redeemed for merchandise such as Commerce sweatshirts, T-shirts, mugs, and radios. Every year since 1997 Commerce held its *WOW!* Awards to honor outstanding service performers for the year in a variety of categories (**Exhibit 10**). The first year the ceremony had taken the form of a small luncheon at a local country club. In 2003, the bank's 30th anniversary, all Commerce employees were scheduled to gather at Radio City Music Hall in Manhattan. Commerce employees were actors, the *WOW!* Awards their Academy Awards; employees peppered the

[9] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

[10] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

[11] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

ceremony with musical performances. The most glamorous prize, for retailer of the year, was the use of a Porsche Boxster for one year and was awarded to a branch manager.

More than parties and awards, *WOW!* was an integral part of the training process at Commerce University, a full-time education and training facility staffed by 41 employees. All new employees underwent an intense introduction to Commerce culture during a class called "Traditions," characterized as "part game show, part training session, part common sense." Employees were taught how to smile, shake hands, and greet customers. "Smiles have teeth," insisted Manning, adding, "voice mail is not *WOW!*" Employees were told by executive vice president of retail banking Dennis DiFlorio: "Don't come here for a job, come to be a leader, be passionate." Hill added his vision to the employees: "In many ways, you have joined a service cult. Nordstrom's has its Nordies, Commerce has its WOW! team. "We can't call ours Commies," DiFlorio explained.[12]

Commerce wanted raving enthusiasts, people who would get a kick out of providing great service. It did not hurt to be a little crazy. "We hire wack jobs," Manning explained to a room full of bank officers. "You're all wack jobs. And it is your responsibility to go out there and find more wack jobs." Recruiting was emphasized repeatedly to new employees, who were given stacks of cards to hand out to people who provided excellent service, whether in another bank, a restaurant, a retail store, or a gas station.

Weekly events like Red Fridays kept the bank playful. That's when the *WOW!* Patrol would visit branches and take photographs of staffers who were wearing red. Even customers would get in on the act. "It sounds juvenile," says Manning, "but people like getting their picture taken with Mr. C [the Commerce mascot]."

Commerce had two mascots. Mr. C, was a jolly, oversized red letter with white gloves. He was a walking logo, Commerce's version of the Golden Arches. Buzz, Commerce's second mascot, was an overjoyed, human-sized bee who ensured that the staff was creating buzz within the branches. In addition, internally, Dr. Wow, the ultra-mysterious character that no employee had ever met, responded to letters and gives out awards.[13]

Commerce University was the in-house training *WOW!* program generator. In addition to indoctrinating new employees, the university offered courses for existing employees, from part-time tellers to senior executives. An award of stock options often accompanied course completion. The university also acted as a training ground for future employees. In cooperation with Drexel University, high school students were invited to attend Camp Business, a free 10-day program that covered general business topics as well as the Commerce strategy.

Mystery shopping, also referred to as *WOW!* shops, was a significant component of performance measurement.[14] A staff of five Commerce University employees managed a team of 100 mystery shoppers, who collectively performed over 14,000 mystery shops annually. Each shopper was given a card with questions and considerations to rate during a visit to a branch. In addition to evaluating the overall condition of the branch, shoppers looked for a handshake followed by the standard Commerce greeting: "Hi! My name is _____. How may I help you today?" If the employee said "can" instead of "may," if the customer-service rep did not walk the shopper to a desk or give her the

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[12] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

[13] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

[14] Mystery shopping involved anonymous visits by evaluators hired part time solely for the purpose of rating service.

appropriate brochure, if the attitude wasn't perceived as genuine, the branch received a lower rating.[15]

Because salary increases were based on shopping results, the information from the shops was posted on an internal database for all branch managers to see. Leagues were organized whereby branches in different regions might compete against one another for the most impeccable service report. Mystery shopping also went beyond Commerce, with shoppers being sent to competitors' branches to open new accounts and test service.

WOW! was interwoven with the organization in many ways. One infamous aspect was the "kill the stupid rule" program, whereby employees who suggested an alternative to a stupid rule were paid $50.

Commerce made it easy for customers who wanted to talk to a person on the phone to opt out of the automated voice-response unit. Moreover, the live agents with whom they were connected adhered to a dress code far stricter than was typical of a call center setting. "We expect *WOW!* service to extend into everything we do," explained vice president of training and development Thomas DiSabatina. "You never know who will walk through our call center—stockholders, the press, Mr. Hill—and we want our reps to represent the *WOW!* It also reinforces their role of responsibility and accountability to bring the best to our fans."

Commerce vans, each painted blue and red and emblazoned with a logo, were considered free advertising by the bank. "If you ask the competition," Hill explained, "they will tell you that they do not paint their vans because they are afraid of getting robbed. Well, it is just ridiculous because the vans drive around with checks, not money, and besides, there hasn't been a robbery since 1945." In New York some vans drove around empty. *WOW!* was everywhere.

Staffing

With rapid growth, staffing was a perennial challenge. Continued success relied on getting the right people, integrating them into the Commerce culture, and training them. In Manhattan, for example, Commerce conducted 2,000 interviews for 40 positions. "This is not the job for someone who's interested in being cool or indifferent," Manning said.[16]

Falese characterized his hiring philosophy as emphasizing engagement both internally among employees and externally among employees and customers:

> We're pretty good at getting people in here and getting them to stay. I've had only one senior manager in the last 10 years who did not fit, and we knew it four months into it. I check in at three months, six months, and a year and ask what is working, what isn't, how is volume, what do you like? Many bankers outside of Commerce delegate so much of their work they lose touch with their customers, their skills, and their contacts. They rarely visit customers and think that business development is playing golf. They are not engaged.

Falese actively monitored the labor market, sniffing around for talent. He considered experienced people who might be available only part time. "It's okay to hire someone part time, someone who has retired and has 30 years of experience," he insisted. "There is no substitute for experience in a

[15] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

[16] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002.

local market. Experience lets you know who the local entrepreneurs are, those who have been able to manage their business through the cycles." Falese used prospective employee interviews to learn about competitors' organizations and kept tabs on who worked where. He observed: "Mergers have created a pool of talent. We are engaged in markets, and we know who the better performers are in each market. I have organizational charts of all of my competitors. I know who their lending officers are; I know who their secretaries are, administrative assistants, clerking officers, operations people, and branch managers."

Retailtainment

Proposed in 2002 to improve the service experience for customers waiting in branches, Retailtainment encouraged branch managers to suggest ideas, even wacky ones, for entertaining branch customers on Friday afternoons. "We wanted customers to expect the unexpected and leave with a smile," explained Jacovelli. New ideas were needed to keep Commerce ahead of the competition. "We need the next penny arcade," remarked Pauls.

Competitors were beginning to adopt some of Commerce's basic service offerings and to emphasize the human side of service with advertising and marketing campaigns. Seattle-based Washington Mutual, a recent entrant in the New York market, had launched its own retail-experience bank, termed an "un-bank," which included roaming tellers, a children's play area, and no desks. ING, a Dutch bank with little branch presence in the United States, opened a café-style location in mid-town Manhattan that served espresso and savings accounts to customers seated at tables provided with free Internet terminals. Even Bank of America was experimenting with televisions to entertain customers waiting in lines.[17]

With some of its competitors offering better rates, Commerce, if it was to stay ahead, had to ensure that its value proposition was clear in customers' minds. Commerce deliberately competed on service, not price. It paid lower rates on deposits in order to pay for enhanced service. The question was, how far should it take differentiating on service? Jacovelli recalled a phone conversation she had with a friend who complained that although it was nice to be greeted by an employee and given a promotional pen, she would prefer that employee get behind the counter and help speed the line through a busy branch. Complained another customer: "There are too many greeters standing around not doing anything."[18] Jacovelli wondered if people really wanted entertainment while they banked.

Some branches had other problems with Retailtainment. Jacovelli related a call she received while away on a business trip about a recent mishap: "The branch manager had arranged for a hot dog cart and a juggler in the branch, all approved by marketing. The hot dog vendor had to use the restroom, and while he was gone his cart caught on fire. When the juggler tried to help, he also caught on fire. That evening it was all over the local news. It was a disaster."

As with any program implemented in a decentralized context, Jacovelli was concerned about branding implications. The bank had worked hard to ensure that its branches all had the same look and feel, embracing the philosophy of building from scratch wherever possible to control the branch environment. Retailtainment encouraged branch managers to be creative. Described Jacovelli:

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[17] Wasserman, "Welcome to the Un-Bank," *Brandweek*, November 4, 2002.

[18] Salter, "Lessons from the Best Bank in America," *Fast Company*, May 2002, p. 88.

The branch managers know their customers better than anyone and should be encouraged to do whatever's necessary to satisfy their needs. However, as we've seen from experience, it is dangerous to leave people completely to their own devices. Some in the organization feel that with proper training and guidelines we can make Retailtainment a success. Others think that it is not the best use of our attention or resources and that we should stick to executing our existing service model. This is important for us because it centers on service and our entire success is dependent upon service. At the end of the day Commerce is one bank, one brand, and our success will be on delivering better service than the competition. The question is what role Retailtainment will have in our delivering on our mission.

Exhibit 1a Commerce Bank Income Statement (year ending December 31; $ in thousands)

	12/31/2001	12/31/2000	12/31/1999	12/31/1998
Total interest income	624,986	522,941	392,980	296,765
Total interest expense	218,754	219,976	141,855	116,711
Net interest income	406,232	302,965	251,125	180,054
Provision for loan and lease losses	26,384	13,931	9,175	5,865
Total non-interest income	197,894	155,527	96,831	73,837
Salaries and employee benefits	*197,658*	*145,557*	*110,136*	*80,592*
Premises and equipment	*89,747*	*71,313*	*52,433*	*39,110*
Additional non-interest expense	*137,069*	*107,600*	*74,582*	*51,718*
Total non-interest expense	424,474	324,470	237,151	171,420
Pre-tax net operating income	153,268	120,091	101,630	76,606
Securities gains (losses)	1,439	3,213	1,943	2,934
Applicable income taxes	49,695	40,064	34,127	27,308
Income before extraordinary items	105,012	83,240	69,446	52,232
Extraordinary gains - net	0	0	0	0
Net income	**105,012**	**83,240**	**69,446**	**52,232**

Source: FDIC Web site, <http://www.fdic.gov/>, accessed February 23, 2003.

Exhibit 1b Commerce Bank Employees and Branches

	2001	2000	1999	1998
Employees	5,329	4,228	3,407	2,424
Branches	185	150	120	88

Source: FDIC Web site, <http://www.fdic.gov/>, accessed February 23, 2003.

Exhibit 2a Commerce Bank Balance Sheet (year ending December 31; $ in thousands)

	2001	2000	1999	1998
Cash and due from depository institutions	584,850	486,994	431,173	313,919
Securities	5,212,214	3,497,522	2,828,777	2,394,476
Net loans & leases	4,652,015	3,712,051	2,978,017	1,943,052
Bank premises and fixed assets	410,451	321,261	229,917	151,877
All other assets	1,411,636	843,176	263,444	175,826
Total assets	12,271,166	8,861,004	6,731,328	4,979,150
Total deposits	10,228,610	7,437,270	5,674,937	4,501,544
Other borrowed funds	90	9,638	205,453	26,004
Equity capital	700,747	537,343	385,404	321,434
All other liabilities	1,341,719	876,753	465,534	130,168
Total liabilities and capital	12,271,166	8,861,004	6,731,328	4,979,150

Source: FDIC Web site, <http://www.fdic.gov/>, accessed February 23, 2003.

Exhibit 2b Commerce Bank Deposit and Loan Information (year ending December 31; $ in thousands)

	2001	2000	1999	1998
Interest-bearing deposits	9,221,383	6,753,279	4,652,945	3,578,041
Loan loss allowance	66,981	48,680	38,381	26,409
Non-current loans and leases	17,616	14,749	9,921	7,749

Source: FDIC Web site, <http://www.fdic.gov/>, accessed February 23, 2003.

Exhibit 3a Consolidated Commercial Banking Industry Income Statement (year ending December 31; $ in millions)

	12/31/2001	12/31/2000	12/31/1999	12/31/1998
Total interest income	402,853	428,448	367,291	362,016
Total interest expense	187,696	224,488	175,149	179,265
Net interest income	215,157	203,960	192,141	182,752
Provision for loan and lease losses	43,420	30,013	21,817	22,215
Total non-interest income	157,049	153,370	144,373	123,642
Salaries and employee benefits	*92,630*	*88,567*	*85,451*	*79,101*
Premises and equipment	*27,570*	*26,781*	*25,795*	*24,155*
Additional non-interest expense	*102,097*	*100,763*	*92,967*	*90,877*
Total non-interest expense	222,297	216,111	204,213	194,133
Pre-tax net operating income	106,488	111,206	110,485	90,046
Securities gains (losses)	4,478	(2,283)	180	3,131
Applicable income taxes	36,741	37,946	39,343	31,931
Income before extraordinary items	74,226	70,977	71,322	61,245
Extraordinary gains - net	(248)	(32)	169	507
Net income	73,978	70,945	71,491	61,752

Source: FDIC Web site, <http://www.fdic.gov/>, accessed February 23, 2003.

Exhibit 3b Employees and Branches

	2001	**2000**	**1999**	**1998**
Number of employees (full-time equivalent)	1,701,721	1,670,861	1,657,602	1,626,978
Branches	65,654	64,079	63,684	61,957
Number of institutions	8,080	8,315	8,579	8,773

Source: FDIC Web site, <http://www.fdic.gov/>, accessed February 23, 2003.

Exhibit 4a Industry Statistics: Consolidated Commercial Banking Industry Balance Sheet (year ending December 31; $ in millions)

	2001	2000	1999	1998
Cash and due from depository institutions	390,965	369,919	366,456	356,704
Securities	1,179,694	1,078,983	1,046,530	979,855
Net loans & leases	3,823,167	3,755,371	3,432,892	3,181,025
Bank premises and fixed assets	76,757	75,795	73,743	71,308
All other assets	1,098,491	964,543	815,539	853,640
Total assets	**6,569,074**	**6,244,610**	**5,735,160**	**5,442,531**
Total deposits	4,391,610	4,179,634	3,831,104	3,681,428
Other borrowed funds	567,743	570,657	555,318	416,696
Equity capital	597,137	530,721	479,731	462,142
All other liabilities	1,012,584	963,598	869,006	882,264
Total liabilities and capital	**6,569,074**	**6,244,610**	**5,735,160**	**5,442,531**

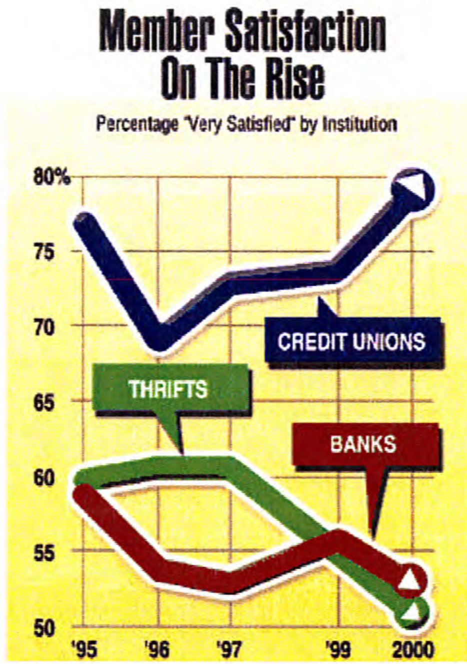
Source: FDIC Web site, <http://www.fdic.gov/>, accessed February 23, 2003.

Exhibit 4b Industry Statistics: Consolidated Commercial Banking Industry Deposit and Loan Information (year ending December 31; $ in millions)

	2001	2000	1999	1998
Interest-bearing deposits	3,505,277	3,423,073	3,127,704	2,961,347
Loan loss allowance	72,314	64,145	58,767	57,261
Non-current loans and leases	54,905	42,942	33,002	31,253

Source: FDIC Web site, <http://www.fdic.gov/>, accessed February 23, 2003.

Exhibit 5 Customer Satisfaction Comparisons



Source: Adapted from American Banker / 2000 Gallup Consumer Survey.

Nearly 79% of consumers surveyed who used a credit union as their primary financial institution in 2000 said they were "very satisfied," with their financial institution as compared with 53% of consumers who use a retail bank. Savings and loans and other thrifts scored 51% in this area.[19]

[19] Questions were asked on a 5-point scale, with "very satisfied," "satisfied," "neither satisfied nor dissatisfied," "dissatisfied," and "very dissatisfied" as the alternatives.

Exhibit 6 Commerce Checking Product Descriptions

Commerce offered checking accounts with the first year free of monthly service fees regardless of balance.[20] This included free first order of checks.

ATM withdrawals were available at any ATM and purchases anywhere Visa® was accepted. Transactions were immediately deducted from checking account and detailed in monthly statements.

Any Commerce Bank checking account could be combined with a cash reserve line for protection from overdrafts. Commerce had four types of checking accounts:

Standard Checking

- A $100 minimum balance resulted in no monthly service fees.

Interest Checking

- No monthly service fees with a $1,000 balance. Unlimited check writing and interest.

50 Plus Club

- Customers over 50 who maintained a $100 minimum balance incurred no account maintenance charge for a checking account with interest, free checks, money orders, notary service, and travelers' checks.

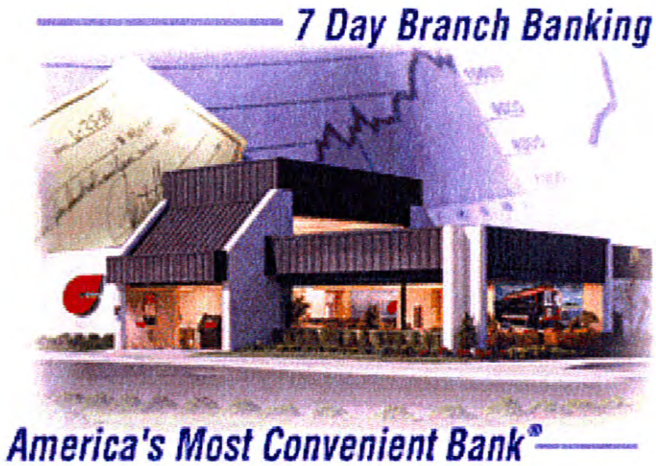
Consumer Checking

- No minimum balance requirement and no per check charge for the first eight checks each month for a $3 monthly fee.

Source: Company Web site.

[20] Online banking—checking balances and account details—was free. A $5 fee was charged per month for electronic bill paying in which customers could pay their bills through the Commerce Web site.

Exhibit 7a Typical Branch

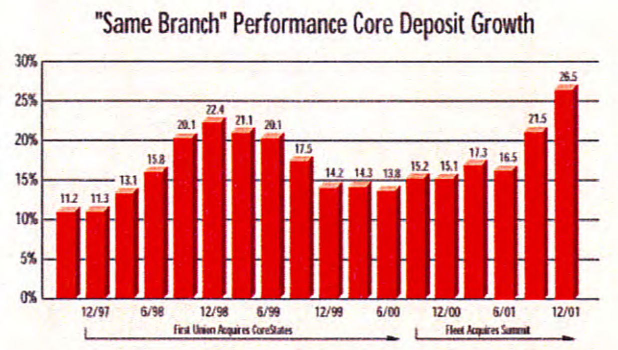


Source: Company Web site.

Exhibit 7b Branch opening

Source: Company documents.

Exhibit 8 Effect of Mergers on Deposit Growth



Source: Company documents.

Exhibit 9 SMART Principles

Say "Yes" to Customers!

- Don't hide behind bank policy. Refer situations which conflict with policy to your supervisor.
- Void forbidden phrases:

  "No . . . "

  "We can't do that."

  "I don't know."

  "Sorry you'll have to . . . "

Make each customer feel special!

- Be personable, pleasant, and positive!
- Politely address customers by their surname.
- <u>SMILE!</u>

Always keep customer promises!

- Take ownership of a customer's problem – solve it for them. Don't play corporate "Ping-Pong."
- If you can't correct the basic problem, take care of the mess it caused.

Recover

- To err is human! To recover, divine!

Think like the customer!

- Always **<u>exceed</u>** the customer's expectations!

Exhibit 10 *WOW!* Awards 2001

Award	Nominee Criteria
Retailer of the Year	Core Deposit Growth, Total Deposit Growth, Consumer Loan Growth, WOW Shops, Total Losses, Employee Turnover
Rookie of the Year	Core Deposit Growth, Total Deposit Growth, Consumer Loan Growth, WOW Shops, Total Losses, Employee Turnover
Best Assistant Manager of the Year	Cash Items, Employee Turnover, WOW Shops
Best Head Teller of the Year	Cash Average vs. Cash Master, Teller Differences, WOW Shops/ Drive-thru Competition, Check Cashing Violations, ATM Up Time
Best Full-time Teller of the Year	Teller Differences, WOW Shops
Best Part-time Teller of the Year	Teller Differences, WOW Shops
Best Customer Service Rep of the Year	Procedure Violations, WOW Shops

Other awards included: Best Supporting Role By An Officer, Best Supporting Role By A Non-Officer, Best Regional Lender, Best Middle-Market Lender, Best Consumer Lender, Best Specialized Lender, Best Sales Representative, Best Customer Service Representative, Best Supporting Role, Outstanding Institutional Performance, Outstanding Retail Sales Performance, and the Instructor of the Year

Source: Company documents

Attendee List

First Name	Last Name	Organization	Email
Serese	Selanders	Affinity CU	serese.selanders@affinitycu.ca
Brad	Barnes	Air Academy FCU	bradb@aafcu.com
Kayce	Bell	Alabama CU	kbell@AlabamaCU.com
Mike	Salerno	America First CU	msalerno@americafirst.com
Stephanie	Sievers	ANECA FCU	Stephanie@Anecafcu.org
Paul	Ebisch	Assemblies of God CU	paul@agcu.org
Justin	Lumby	Assemblies of God CU	justin@agcu.org
Jeremy	Hayes	Assemblies of God CU	jhayes@agcu.org
Maia	Graham-Derham	Assiniboine CU	mgraham@assiniboine.mb.ca
Carey	Price	Baxter CU	carey.price@bcu.org
Linda	Young	Coast Capital Savings CU	linda.young@coastcapitalsavings.com
Scott	Coe	CoastHills FCU	scottc@coasthills.coop
Laurie	Butz	Community First CU	laurie.butz@communityfirstcu.org
Rachel	Langtry	CU 1	langtryr@cu1.org
Brigitte	Goulard	CU Central of Canada	goulardb@cucentral.com
John-Paul	Morgante	CU of Texas	jpmorgante@cuoftexas.org
Brett	Wooden	Cy-Fair FCU	bwooden@cyfairfcu.org
Jennifer	Sider	Duke University FCU	jennifer.sider@duke.edu
Dave	Klavitter	Dupaco Community CU	dklavitter@dupaco.com
Linda	Bodie	Element FCU	linda.bodie@elementfcu.org
Damian	Jakubczyk	Elevations CU	damian.jakubczyk@elevationscu.com
Kevin	Roland	FedChoice FCU	kroland@fedchoice.org
Ed	Campbell	FedCHoice FCU	ecampbell@fedchoice.org
Jen	Laud	First Financial CU	jennifer@firstfcu.org
Issa	Stephan	First Financial FCU	istephan@firstffcu.com
Loree	Gray	First West CU	lgray@firstwestcu.ca
Doug	Ebner	First West CU	debner@firstwestcu.ca
Nilsa	Gebert	FOCUS CU	nilsa@focus-cu.com
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