

A transformation in corporate culture

Profitability calculations revolutionize the way Caixa Galicia does business.

by Shirley S. Savage

Borja de Carlos, director of Management Information Systems at Caixa Galicia, explains how analysis of detailed contract information affects profitability for the bank.



Photography by Ian McMurray

The word “profitability” conjures up images of wealth, reward and success. But does it indicate revolutionary changes to attitude, outlook and corporate culture? In the case of Spain’s Caja de Ahorros de Galicia (Caixa Galicia), the act of instituting profitability measurements is altering the way the bank thinks about business and how it structures itself. With the implementation of a Teradata Warehouse and Teradata Value Analyzer, Caixa Galicia is changing the focus of its day-to-day and long-term objectives. By harnessing the power of data, Caixa Galicia is now able to pursue a wide range of new commercial strategies. Now the bank can set objectives based on its customers’ as well as its own profitability. In turn, these objectives will affect all of Caixa Galicia’s operations, branches and personnel.

With initial origins reaching back to 1842, Caixa Galicia was founded in 1978 in Galicia, a far northwestern region of Spain. Today the bank boasts 806 operating branches. Most are in Spain, but several are located in Portugal; Miami, Fla.; and Geneva, Switzerland. The bank is actively expanding its global operations into France, the United Kingdom, Mexico, Argentina, Venezuela and Panama. Caixa Galicia’s increasing reach is paying off, as 41% of its branches and 62% of its total



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loans and deposits are now outside the Galician region.

Spain’s banking sector is highly competitive, with savings banks giving commercial banks a run for their money. Over the last five years, savings banks’ private-sector loan and deposit activity has outpaced that of commercial banks. Caixa Galicia has certainly benefited from this trend. As of December 2006, the bank ranked as Spain’s sixth largest savings bank with 43 billion euros (\$58 billion U.S.) in assets.

Stymied by lack of data

Going as far back as the late 1990s, Caixa Galicia’s management recognized that if they wanted the bank to grow, they needed better information about their customer base. For many years, branch managers clamored for the ability to determine the profitability of products and customers. Borja de Carlos, director of Management Information Systems (MIS) and head of the Profitability Project at Caixa Galicia, recalls speaking to a manager who, in the past, needed to review 10 companies and more than 25 line-of-credit products to determine the product renewal rates. To calculate the product margins, the manager had to rely on faxed information and Excel spreadsheets. In addition, this manager had no information available to help calculate the cost of each product.

In an initial attempt to remedy such challenges, Caixa Galicia made a concerted effort during 2000 and 2001 to obtain contract information at the customer level, with an eye on developing profitability measurements. “Only a few informal calculations using just a handful of variables were done for a limited number of commercial campaigns. The numbers were only used by the marketing department,” says de Carlos. “It was a narrow usage of profitability.” Not only was it impossible to calculate such measures for every contract and client, but to make matters worse, there was little faith in the accuracy of such metrics.

To overcome these challenges, the bank implemented a Teradata Warehouse and later added Teradata Value Analyzer, thus enabling the analysis of information at the contract level and the tracking of profitability. The Teradata Value Analyzer implementation began in January 2006 with a five-month pilot project, covering two products that account for 75% of the bank’s balance sheet. After the successful pilot, all the components of the bank’s balance sheet were transferred to Teradata Value Analyzer by the end of 2006.

Does the bank now have the information needed for the calculations? “Absolutely,” de Carlos says. “Once we had the information at the contract level,

Teradata Value Analyzer gave us the ability to easily calculate the profitability of the contracts.” In fact, by January 2007, Caixa Galicia met its goal of calculating the financial profitability of every product, including the impact of commissions.

De Carlos also points out that no additions to staff were needed to accomplish this task. The bank employs one MIS staffer who devotes almost all of her time to overseeing the functionality of the Teradata system and another who is assigned to the system for about half of his workload.

Better measurements mean better decisions

The bank is currently engaged in the second stage of implementation, which focuses on cost calculations that give Caixa Galicia a better view of profit and loss. Although it’s possible to do profitability calculations for both commercial and personal accounts, Caixa Galicia is focusing on commercial accounts right now because it is a part of the business that is more difficult to manage due to the complexity of the product range. For this reason, profitability calculations add more value to commercial accounts than to the personal accounts.

The bank’s evolution of profitability can be sorted into three parts:

- Integrating the contract profitability at branch level

- > The ability to help concrete business (for example, credits cards); scheduled for completion by the end of 2007, this ability will allow for profitability-driven evaluation of each Caixa Galicia bank branch
- > Integrating the direct and indirect costs of servicing each client into the detailed profit and loss (P&L) analysis; scheduled to take place in 2008

One current pilot project involves 50 managers, each of whom will use Teradata Value Analyzer to set margins for line-of-credit renewals within his or her own portfolio of 40 to 50 companies. The managers will be able to use information on the actual internal costs of funding each product—information that was previously unavailable. De Carlos reports that the managers were pleasantly surprised to have access to all the portfolio information that applies to a product's P&L statement.

"The calculations will help the bank make some central decisions regarding the segmentation," de Carlos says. "We'll be able to look at different groups in terms of profitability and be able to take commercial actions based on the profitability. It opens up the commercial strategies

available to the bank." Soon the bank hopes to run segmentation analysis, which will look at all variables including profitability. "This will change completely the allocation of the portfolios to the bankers," de Carlos says.

New objectives, new directions

Having more data will help bankers make better decisions on a day-to-day basis, but it will also drive Caixa Galicia's strategic direction. "The profitability calculations are going to change the way the bank sets its internal objectives," de Carlos says. Decisions will not be based on volume, client retention or interest rates. "The objectives will be set by profitability numbers. Right now only about 20-35 percent of the objectives are set on profitability indicators," de Carlos continues.

According to de Carlos, "this will open up a wide range of possibilities around the setting of people's objectives. We want to drive the bank's decisions based on customer strategies. The profitability calculations are key to achieving this."

Further, the bank will be able to run a branch P&L based on the contract information. "We are changing completely the

purpose of the information," de Carlos points out. "Instead of looking at the information from top to bottom, we are viewing it from bottom to top." Did de Carlos know implementing Teradata was going to play such an important role in Caixa Galicia's corporate strategy? "Not really," says de Carlos, noting that Teradata enables the bank to explore "all the possibilities."

What's next?

Going forward, Caixa Galicia is considering using profitability calculations and developing a scorecard to rank customers. This will encourage managers to maintain the pricing margin for highly profitable customers. Further, the scorecard will allow the bank to discover which customers are and are not profitable from the bank's point of view. Some customer groups are assumed to be very profitable but are not. "It's been a big surprise," says de Carlos.

Other objectives of the project are to show the profitability of segments and channels, and to see how that affects payments to managers. De Carlos says, "Every implication will give rise to questions that we'll have to deal with and handle within the organization."

While challenges lie ahead, de Carlos says the Profitability Project is "an important step to take. I think it's going to be a milestone for the company. MIS is going to be based on customer contract information, not on headquarters or bank branch information." Caixa Galicia will now have a single, common denominator underlying all of its decisions. With a clarity of purpose informing all of its objectives, the bank's use of Teradata Value Analyzer is an example of the conversion of knowledge into power. **T**

Shirley S. Savage has published articles on technology, energy and science.

Behind the solution: Caixa Galicia

Database:	Teradata Database V2R61.1
Server:	2-node Teradata 5450 Server
Users:	150 (20 concurrent)
DBAs:	1.5
Data Model:	Third Normal Form
Operating System:	Windows Server 2003
Storage:	5.7TB
Teradata Utilities:	Teradata Load Utilities 8.1, Teradata Manager and Teradata Utility Pack - ODBC Driver, SQL Assistant and Mainframe Channel Connect
Tools/Applications:	Teradata Value Analyzer, Teradata CRM and products from Hyperion, Informatica and Microsoft