

Lawrence Serven  
203/328-3056  
www.ButtonwoodLLP.com

*CPM and the Art of  
Motorcycle Maintenance*

June 28, 2004

**85TH ANNUAL IMA CONFERENCE**

**AND EXPOSITION 2004**



# Outline

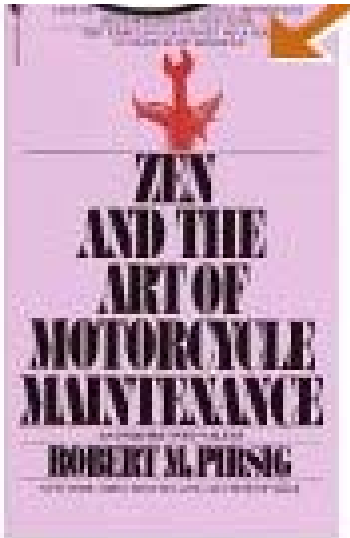
---

- Today's Learning Objective
- National Survey of 225 Companies
- Definition of CPM
- A Tale of Two Companies
- CPM Readiness Assessment
- A Blueprint for Implementing CPM
- Q&A

## Today's Learning Objective

---

Is CPM just some type of corporate philosophy or is there really something there?



## Today's Learning Objective

---

And if there is  
something there, how  
can I implement it?

# Outline

---

- Today's Learning Objective
- National Survey of 225 Companies
- Definition of CPM
- A Tale of Two Companies
- CPM Readiness Assessment
- A Blueprint for Implementing CPM
- Q&A

## Buttonwood/FEI Survey

---

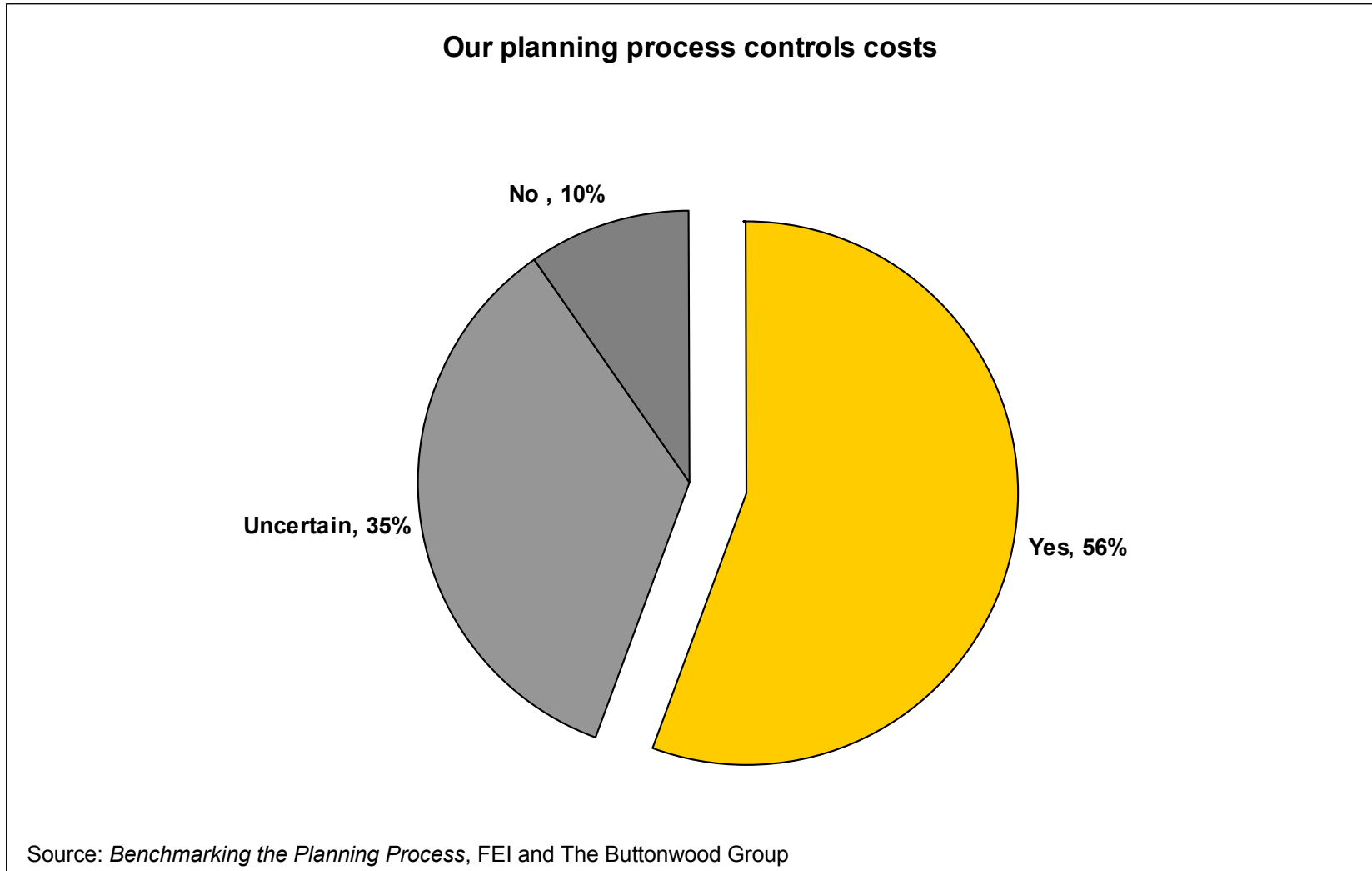
# Benchmarking Statistics of 225 Companies

- ✓ The Annual Plan costs \$1,000 for every employee.
- ✓ Involves 22% of the workforce.
- ✓ Departmental Budgeting is the most expensive element.
- ✓ Statistics differ by industry.



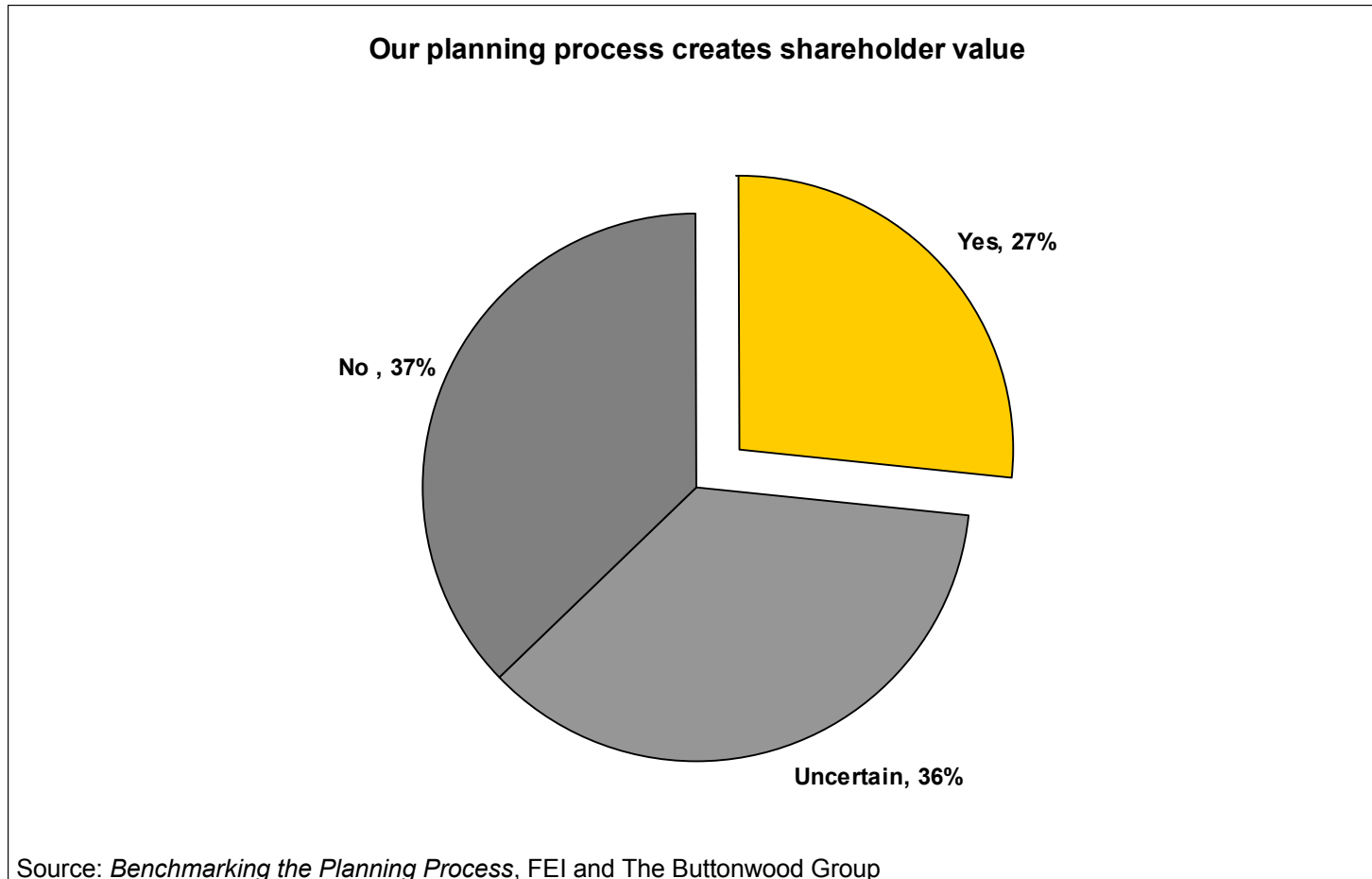
# Buttonwood/FEI Survey

While planning does help manage cost...



# Buttonwood/FEI Survey

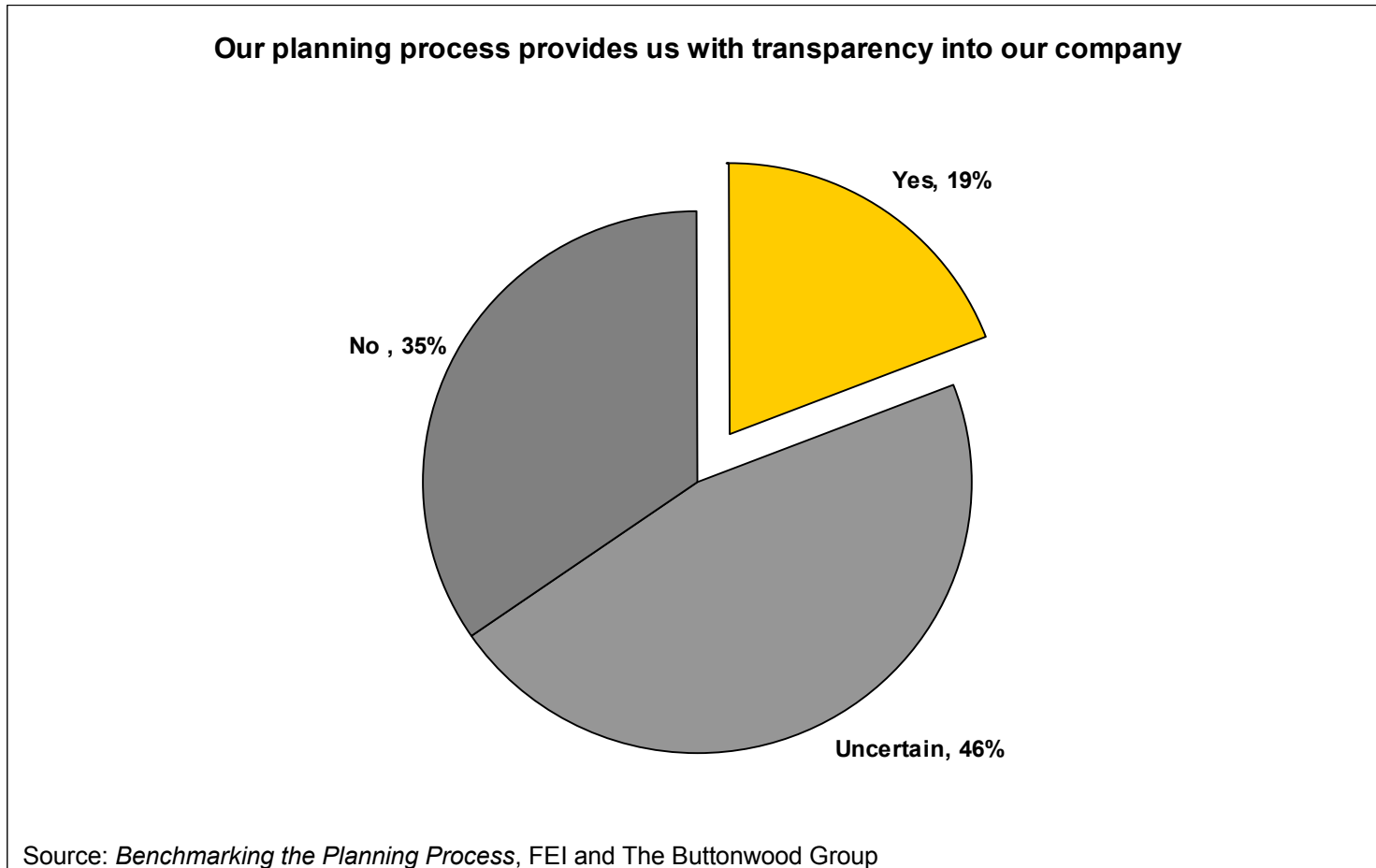
... But it doesn't seem to be creating much shareholder value





## Buttonwood/FEI Survey

In part, because it isn't providing much **transparency** into the business (necessary to fully address Sarbanes Oxley):



# Outline

---

- Today's Learning Objective
- National Survey of 225 Companies
- Definition of CPM
- A Tale of Two Companies
- CPM Readiness Assessment
- A Blueprint for Implementing CPM
- Q&A

## CPM Description

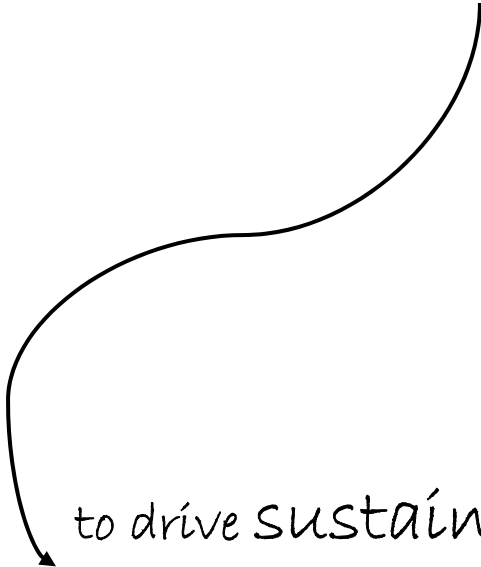
*CPM Components:* The full CPM cycle includes all the major components of management from strategy to operational planning to ongoing reporting:



## CPM Description

### *Working Definition:*

Corporate Performance Management (CPM) is the full integration of all the major components of Planning...  
... Performance Management... Reporting... and Rewards



to drive sustained  
profitable growth.

# CPM Description

CPM is about integrating all of the components of planning, reporting and performance management:



**WAL★MART®**



**Microsoft®**

**DAIMLERCHRYSLER**

# Outline

---

- Today's Learning Objective
- National Survey of 225 Companies
- Definition of CPM
- A Tale of Two Companies
- CPM Readiness Assessment
- A Blueprint for Implementing CPM
- Q&A

# A Tale of Two Companies

Company snapshot: which company has been more successful?

|                         | Company A | Company B |
|-------------------------|-----------|-----------|
| Sales Growth            | 8%        | 0%        |
| Gross Margin %          | 55%       | 35%       |
| SG&A Expense Growth %   | 5%        | 12%       |
| EBITA as a % of Revenue | 15%       | 3%        |
| RONA %                  | 20%       | 2%        |
| Sales Per Employee      | \$169,900 | \$116,100 |
| EBITA Per Employee      | \$15,700  | \$1,900   |

## A Tale of Two Companies

---

***Why*** has “Company  
A” been more  
successful?



# A Tale of Two Companies

Company snapshot (part 2): why has Company A been more successful?

|  | Company A | Company B |
|--|-----------|-----------|
| Customer Satisfaction Index                                    | 90        | 75        |
| # Defects per Thousand   | 5         | 20        |
| % On Time Delivery   | 95%       | 70%       |
| Employee Turnover  | 5%        | 20%       |
| Employee Satisfaction Index                                    | 90%       | 70%       |
| % of Sales Coming From Products Introduced in the Last 2 Years | 20%       | 1%        |
| % Product Returns  | 1%        | 8%        |

# A Tale of Two Companies

Which way should the arrow go? Which set of measures drives the other?

Customer Satisfaction Index

# Defects per Thousand

% On Time Delivery

Employee Turnover

Employee Satisfaction Index

% of Sales Coming From Products Introduced in the Last 2 Years

% Product Returns



Sales Growth

Gross Margin %

SG&A Expense Growth %

EBITA as a % of Revenue

RONA %

Sales Per Employee

EBITA Per Employee

# A Tale of Two Companies

---

Customer Satisfaction Index

# Defects per Thousand

% On Time Delivery

Employee Turnover

Employee Satisfaction Index

% of Sales Coming From Products  
Introduced in the Last 2 Years

% Product Returns

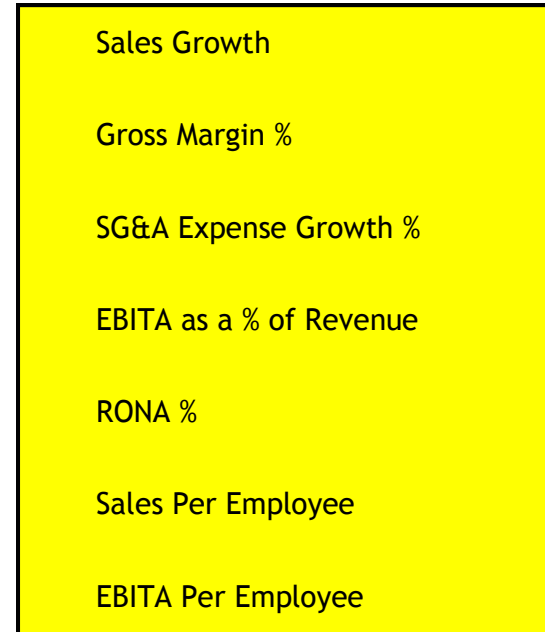
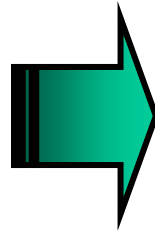
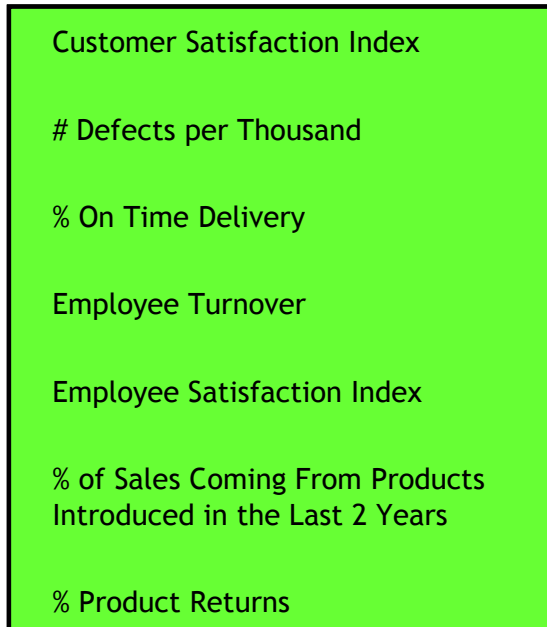
=

**Measures for  
What Really  
Drives Success  
in the Business**

# A Tale of Two Companies

- Set annual plan targets (numerical)
- Bake into the budget
- Report on every month to sr. exec team
- Analyze variances

- Set annual plan targets (numerical)
- Bake into the budget
- Report on every month to sr. exec team
- Analyze variances



# A Tale of Two Companies

---

Most companies manage to the P&L.

Customer Satisfaction Index  
# Defects per Thousand  
% On Time Delivery  
Employee Turnover  
Employee Satisfaction Index  
% of Sales Coming From Products Introduced in the Last 2 Years  
% Product Returns

Sales Growth

Gross Margin %

SG&A Expense Growth %

EBITA as a % of Revenue

RONA %

Sales Per Employee

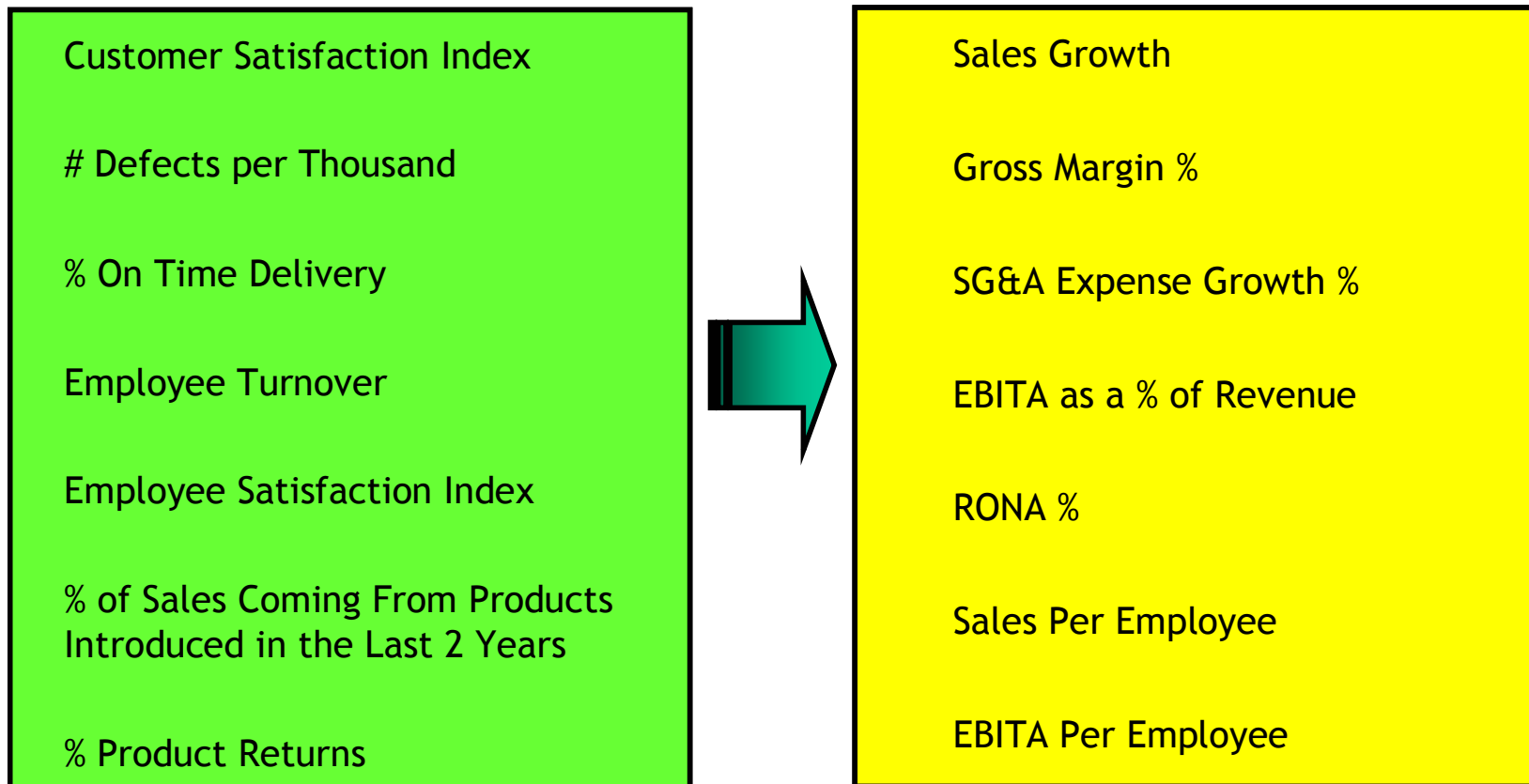
EBITA Per Employee

# A Tale of Two Companies

---

CPM companies manage to the real drivers of success...

...and also understand how and why they impact the P&L



# A Tale of Two Companies

---

## Beyond Balanced Scorecard

- ✓ Set annual plan targets (numerical)
- ✓ Bake into the budget
- ✓ Report on every month to sr. exec team
- ✓ Analyze variances

Customer Satisfaction Index

# Defects per Thousand

% On Time Delivery

Employee Turnover

Employee Satisfaction Index

% of Sales Coming From Products  
Introduced in the Last 2 Years

% Product Returns

# Outline

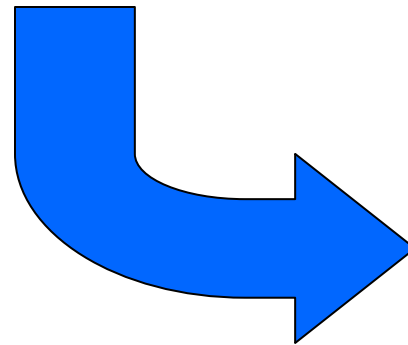
---

- Today's Learning Objective
- National Survey of 225 Companies
- Definition of CPM
- A Tale of Two Companies
- CPM Readiness Assessment
- A Blueprint for Implementing CPM
- Q&A



---

# Readiness Assessment (Short Version)



# CPM Readiness

---

1) What does your company really need to do to be successful?

Define what it takes to win

2) Is your company doing those things well or not?  
How do you really know? What data supports your view?

Assessment

3) What is the plan for being successful?

Make a plan to win

4) How is that plan reflected in your 2004 budget?

Resource the plan

# CPM Readiness

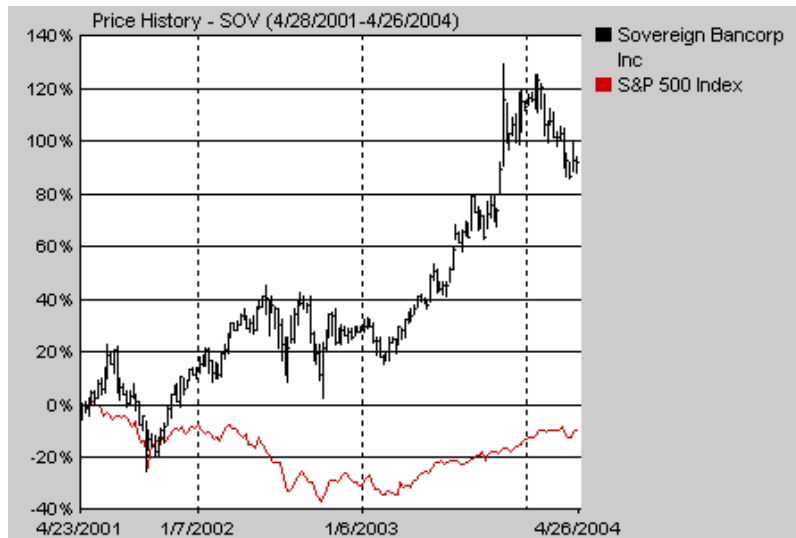
---

*Let's take a look at how a highly successful company has answered those questions...*



# CPM Readiness

*Sovereign bank has performed remarkably for its shareholders and is admired among its peers...*



- Identified by *Fortune Magazine* as one of the most admired financial industry companies in the nation for three years running.
- Named to *The Forbes Platinum 400* list of companies for short term and long term financial performance.
- Received upgrades from *Moody's* twice last year.

# CPM Readiness

---

1) What does Sovereign Bancorp really need to do to be successful?

Define what it takes to win

- To be successful, Sovereign needs superior loan quality.
- To be successful, Sovereign needs superior risk management.
- To be successful, Sovereign needs a strong sales and service culture that aligns team member performance with a recognition and reward system.
- To be successful, Sovereign needs a high level of productivity through revenue growth and efficient expense control.

# CPM Readiness

## 2) Is Sovereign doing those things well or not?

Assess  
ourselves

### Critical Success Factors

Since 1987, Sovereign has continued to manage its business around four critical success factors. Here's how we did in 2003, as compared to prior years:

#### 1. Superior Asset Quality

In 2003 NPLs decreased 14%, while our loan portfolio increased \$3 billion. Our goal is to reduce our annualized NCOs to 40 basis points or less during the mid to latter part of 2004.

|                 | 12/01 | 12/02 | 12/03 |
|-----------------|-------|-------|-------|
| NPAs/Assets     | 0.69% | 0.65% | 0.51% |
| NPLs/Loans      | 1.11% | 1.00% | 0.76% |
| NCOs/Avg. Loans | 0.43% | 0.58% | 0.55% |

#### 2. Superior Interest Rate Risk Management

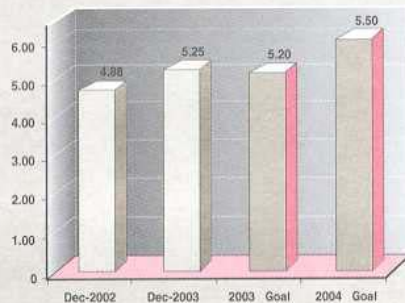
Net interest income volatility is minimized by the strong organic growth in our balance sheet. Our large core deposit portfolio is a very effective hedge against rising interest rates.



12/03 Deposits – \$27.3 Billion  
12/03 Cost of Funds – 1.00%

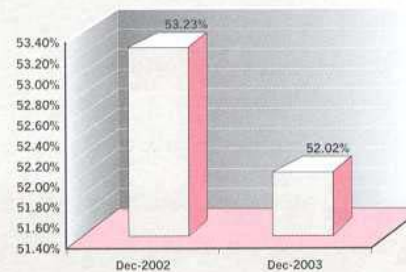
#### 3. Strong Sales and Service Culture

We exceeded our goal of 5.2 retail accounts and services per household in 2003. Our 2004 goal is 5.5 retail accounts and services per household.



#### 4. Productivity and Expense Control

We reduced our efficiency ratio by over 100 basis points in 2003. Our goal is to reduce it to under 50% in the next year or two.



## CPM Readiness

---

3) What is the Sovereign plan for being successful?

Make a plan to win

- **Implement “Interactive Reporting and Initiation Services”** (IRIS) - an internet based cash management program that offers the very latest in web based reporting and transaction initiation technology.
- **Expand Red Carpet Service™**, a program unique to the industry. Through Red Carpet Service, Sovereign offers several guarantees and if they fail to achieve them, customers receive \$5. In return, Sovereign receives feedback to become a better bank.
- **Build a very experienced team** of hundreds of relationship managers in all our markets; helping position Sovereign as one of the best banks for small and medium businesses.

## CPM Readiness

---

3) What is the Sovereign plan for being successful?  
(continued)

Make a plan to  
win

- **Commit to leadership development.** Sovereign strives to hire and retain the best people who have a passion for execution and possess absolute clarity about vision, mission, value and strategy.
- **Align rewards to foster a results oriented culture.** Sovereign provides its leaders with a clear model of expectations. The bank stresses leadership development through ongoing emphasis on improving business and emotional intelligence based on human skills while possessing a passion for continuous improvement.



## CPM Readiness

---

4) How is that plan reflected in the 2004 budget?

Resource the  
plan

- Increased # of retail accounts per household - from 5.2 to 5.5-- translating into increased revenue (increase 15%).
- Improved efficiency ratio translating into lower operating costs as a % of revenue (to less than 50%).
- Improved risk management translating into lower Non Performing Assets/Assets (from 0.51% to 0.49%).
- New hire training budget.
- Development budget.
- Incentive compensation budget.

# CPM Readiness

---

## Beyond Balanced Scorecard

- Set annual plan targets (numerical)
- Bake into the budget
- Report on every month to sr. exec team
- Analyze variances



Efficiency Ratio

NPAs/Assets

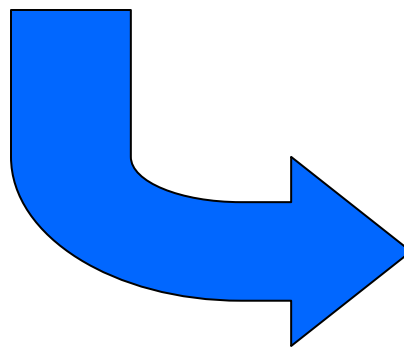
NPLs/Loans

NCOs/Avg Loans

Avg # of Accounts per Household

# Readiness Assessment

(12 Question Version)



## CPM Readiness

---

- 1) In addition to broad goals, does your organization's long term or strategic plan produce specific -- **numerically defined** -- targets?
- 2) Do those targets contain **both** operational as well as financial measures?
- 3) Do **operational** strategic targets drive the **financial** projections?

## CPM Readiness

---

- 4) Are those targets defined for **just the end of the strategic plan horizon**, or have they been established for the current year and all the years in between?
  
- 5) Has your senior management built **consensus** around the **value drivers** of the business, and have they **documented** and **communicated** those drivers?
  
- 6) Are those **value drivers** the same ones that **strategic targets** have been set for?

## CPM Readiness

---

- 7) For each target, is there a **clear set of initiatives** that is designed to achieve them?
  
  
  
  
  
  
  
  
  
  
  
  
  
  
  
- 8) Have the **resources** (time & money) necessary to execute those initiatives been developed and *formally approved* by senior management?
  
  
  
  
  
  
  
  
  
  
  
  
  
  
  
- 9) Have those resources been identified in next year's **plan or budget**?

## CPM Readiness

---

- 10) Have **individuals been named** to work on the initiatives and to achieve the strategic targets?
  
- 11) Does the current compensation and promotion system **clearly reward individuals** for their role in achieving the initiatives and targets?
  
- 12) Do planning and reporting **systems** support all the processes above and enable **effective monitoring of actual results**?

# Outline

---

- Today's Learning Objective
- National Survey of 225 Companies
- Definition of CPM
- A Tale of Two Companies
- CPM Readiness Assessment
- A Blueprint for Implementing CPM
- Q&A



## Industry leaders have endorsed Value Planning

### **Pfizer**

Henry  
McKinnell

Chairman &  
CEO

“Serven demystifies shareholder value creation and provides a pragmatic, actionable guidebook for executives.”

### **Dell Computer**

Matt Delaney  
Dir. Corporate  
Planning

“An in depth look at how the finance professional can take piece meal information and turn that into a powerful set of business strategies.”

### **Wal-Mart**

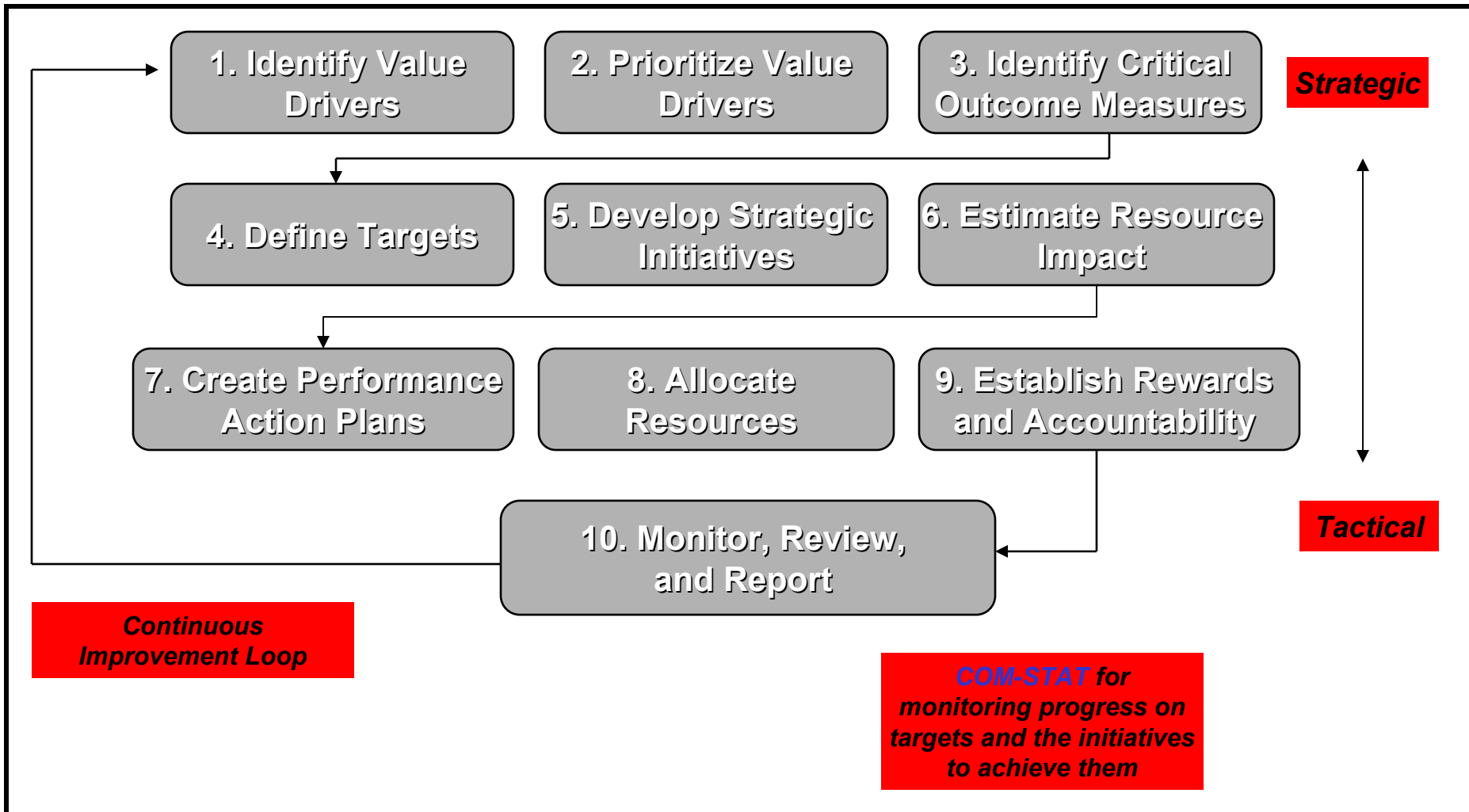
John Menzer  
CEO, Int'l

“Value Planning addresses today’s #1 management issue – building a value management system – and provides a systematic approach with clear guidance that will be helpful to any company in creating shareholder value.”



# Value Planning

One blueprint for implementing corporate performance management is known as Value Planning:



# Outline

---

- Today's Learning Objective
- National Survey of 225 Companies
- Definition of CPM
- A Tale of Two Companies
- CPM Readiness Assessment
- A Blueprint for Implementing CPM
- Q&A

# Q&A

---

