THE FUQUA SCHOOL OF BUSINESS — THE DUKE MBA CONSULTING CLUB

Case #7

Company: Accenture (Round 2)

Topic: Profitability; Human Capital – Incentive Program/Motivation

Industry: Retail Banking

About the Case

This case format was recorded in a conversational style hence no specific framework approach is used. Given the exploratory and qualitative nature of this case, the approach taken and sequence of events is dependant on the interviewer's line of questioning and alternate scenarios are certainly possible. Hence it is imperative that the interviewer be familiar with all facts and assumptions of the case, so as to be able to explore various alternative approaches that may lead interviewee to the same conclusion

Defining the Problem

Your client is a regional commercial bank and your task is to make a recommendation to improve the profitability of the retail segment of their business operations. Specifically you are required to evaluate the merits of a proposal made by the CFO - a commission-based incentive program targeted at the bank's tellers with the objective of increasing product sales. How much commission should the bank pay its tellers per unit of product sold?

Information Gathering

Read this information well before you administer the case. This case is open-ended - make the candidate come up with his/her own assumptions and estimates at every step. One set of reasonable assumptions is listed below – use these to steer the candidate back on track if they seem to be off the reservation.

Prompt 1: Product mix - *The Interviewee should ask for more information about the products, without which we cannot ascertain the profitability of each product in the mix.*

Information to be given if asked:

The bank has four products it wants to sell in this program - CDs, Checking accounts, Mutual funds, and IRAs.

Prompt 2: Revenue stream – *Ask the interviewee the specific sources of revenue for the bank's four products*

Answer: Interest generated, commission earned, perhaps an overnight float option, synergies or economies of scale from cross selling.

Prompt 3: Profit Margins – *The Interviewee should ask for the bank's profit margin on each of these products in order to estimate a commission structure.*

Information to be given if asked:

The profitability is as follows:

- CD's: 2% with an average $4,000 initial deposit
- Checking: 4% with an average $2,000 initial deposit
- Mutual Funds: 1% with an average $8,000 initial deposit
- IRA's: 2% with an average $4,000 initial deposit.

Prompt 4: Incentive Program Options – *The Interviewee should arrive at a profit margin of $80 per product and constrain his incentive program within this range. Explore at least four different incentive options.*

Answer: A fixed fee per product, a percentage of the profits, a fixed fee for a certain number of products sold that would decline after a threshold, or a variable commission depending based on products and spreads.

Prompt 5: Criteria for selection of incentive program - *Ask the Interviewee what information he would need to determine the best incentive program for the bank*

Answer:

Profitability - The ease of sale, whether all tellers are equally effective sellers, profit per teller or per customer, estimated commission as a percentage of current salary, cost of incentive program

Human Capital – The program that best motivates employees to sell products and increases retention rate.

Make an assumption that his choices can be narrowed down to one. In this case, the assumption is that all the tellers are equally effective and that all the products can be sold with roughly the same effort. So what would you base the commission on then? Why?

Answer: Fixed fee option as it is a straightforward incentive and has a large upside for employees. Also administration costs are relatively less.

Prompt 6: Cost of incentive program - *Steer the Interviewee toward discussing the cost structure of the incentive program. The Interviewee should ask about the present salaries of the tellers and the expected sales/teller.*

Information to be given if asked:

- Salary per year per teller: $18,000 - 32,000
- Note that there is no relationship between teller's ability to sell and years of experience.
- Expected sales/teller: five products per week.

Answer:

Average teller salary $25,000 per year

Annual sales/teller = 250 products (5 products per week * 50 weeks per year)

Conclusion

Suggested incentive:

- Commission fee of $10 per product. (Interviewee's assumes 10% commission)
- New profit margin = $(80 – 10) = $70

Author's Commentary/Notes - *Interviewee may suggest necessary adjustments in internal processes for the incentive program to work.*

Suggested Answers

- Tracking field in their accounting system to associate correct teller ID with sales made
- Changes in payroll systems
- Sales training program for tellers
- Effectiveness study to measure impact on employee retention/satisfaction