

Achieving Service Delivery Excellence Profitably

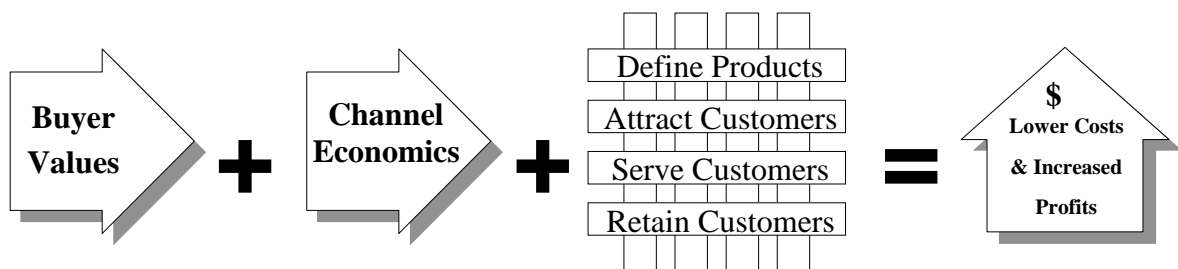
The current structural changes taking place in the financial services industry require the strategic analysis of both cost reduction and revenue enhancement to optimize service delivery. Service excellence can no longer be measured simply in terms of customer satisfaction. Customer satisfaction and customer profitability must become a unified concept. This article provides a framework for banks and other financial service providers to achieve service delivery excellence profitably by focusing on technology, process, and what we believe to be the five key imperatives related to service delivery.

Focus on Technology

Any discussion of service delivery excellence must include the impact of technology. Over the past five years, technology has provided significant breakthroughs and has been the primary enabler of both traditional and alternative delivery channels. However, the “cost to play” in the technology game has continued to increase dramatically. Despite rising costs, however, banks’ spending has remained—and likely will remain—relatively flat. In 2008, technology spending in the United States’ banking industry increased only 2.5 percent over the prior year¹, and bankers anticipate holding spending levels constant over the next two to three years.

The money banks do spend will be focused on branch automation, enhancing automated delivery, improving service levels for phone-based customer service, and enhancing on-line banking and security². To ensure these investments pay off in an environment of rising costs and minimal increases in spend, banks must increase knowledge of customer and buyer values, and channel economics. They must adapt a cross-functional orientation to minimize delivery cost, and optimize revenue generation and profitability as depicted below.

The Equation for Service Delivery Excellence and Profitability



Perhaps the greatest challenge in this equation for banks is overcoming the long-standing cultural and organizational barriers that emphasize function versus process. Overcoming these barriers and establishing an organization-wide understanding of the keys to success are critical to achieving service delivery excellence profitably.

^{1,2} 2008/2009 Computer Economics Study

Five Imperatives

Five key imperatives must drive a bank's thinking related to service delivery in addition to customer satisfaction, whether the ultimate objective is cost reduction, revenue enhancement, or both.

1. Start with the customer—determine the values and attributes that influence customers' behavior and their propensity to make purchase decisions.
2. Design processes that simultaneously meet customer needs and increase knowledge about the customer.
3. Consolidate customer information and data and develop the capability to use the data to determine customer preferences related to products and channels.
4. Determine the true economics of current and future delivery channels.
5. Develop platforms for technology and infrastructure that support multiple delivery channels and cross-function processes.

It is not enough to pursue one or just a few of these imperatives. True service excellence with optimal profits will only be achieved when all five are pursued and mastered together. Today, there are several examples of organizations that excel in one or two of these areas. Unfortunately, only a few are banks. However, gaining some deeper insights into these imperatives and reviewing examples of companies that do each well should help to reinforce the need to focus on and pursue them.

1. Start With the Customer

Gaining further insights into buyer values is critical to providing focus to banks from both a strategic and operational perspective. Identification of key buyer attributes will result in the ability to segment customers in new and more meaningful ways based more on behavior and less on traditional demographics. In addition, an increased understanding of buyer propensities will provide tremendous value to both product development and delivery related to two important considerations: what customers want to buy and how they want to buy it.

Today, enhanced buyer value data can be obtained through the assistance of data mining and survey tools utilizing techniques such as conjoint analysis. The yield of this more robust data has another significant benefit related to the alignment or development of existing or new distribution channels for specific products based on known customer preferences and usage patterns. An example of how this information could be helpful to banks is highlighted by a recently completed national survey. The survey questioned financial service customers in six major metropolitan areas of the United States related to five basic products: deposit products, credit cards, mortgage loans, investment products, and consumer loans. One of the interesting results of this survey was that customers preferred the telephone as their delivery channel choice.³

Capital One, a diversified financial services company offering a broad array of credit, savings and loan products to customers in the United States, United Kingdom, and Canada, provides one of the best examples of an organization that has benefited dramatically from gaining true insights into customer and potential

³ Proprietary Study

customer values. Utilizing its enormous and detailed database of customer information, combined with target mailings and telephone follow up, Capital One has consistently achieved response and new customer acquisition rates significantly greater than their closest competitors. Over the past several years, Capital One has grown to more than \$151 billion in assets and is ranked fourth in size among diversified financial services companies. In addition, they are on track to reduce operating costs by \$700 million in 2009⁴. Company executives credit the growth and cost reductions to a superior understanding and mining of customer information.

2. Design Multi-Purpose Processes

One of the major downfalls of banks today, as well as many companies outside of banking, is the inability to turn customer transactions into learning opportunities. To maximize customer service and profitability, business processes must be designed with the customer in mind. This concept will ensure both immediate need fulfillment and increase the ability to utilize transaction data to proactively facilitate future service and sales opportunities.

USAA, an organization initially established to provide insurance coverage to veterans of the armed forces, may be one of the best examples of this concept. Today, USAA provides multiple financial service products to its customers, but its hallmark remains outstanding customer service. What earns the respect and strong allegiance of its customers is USAA's ability to use the information it gathers from each transaction to "outservice" its competitors. In addition, as USAA has added new products, the data it has captured from past customer contacts has been leveraged to provide immediate and significant benefit and impact. By aggregating demand information and statistics, USAA now offers its customers not only a multitude of financial products, but shopping services for everything from jewelry to cars, and passes its volume discounts, in the form of savings, to its customers.⁵

3. Consolidate Customer Information and Data

Closely related to the design of multi-purpose processes is the capability to collect and access key customer data. Establishing the enabling technology to accomplish this "operationalizes" the opportunity to create or satisfy customer demand based on customer preference. A key step in developing this capability is consolidation of customer information and data. One approach, used widely in the 1990s, utilizes technology known as massive parallel processing (MPP) and creates one massive database of customer information. This data is made available via a server or mainframe for various queries from users throughout the organization. The most significant benefit of MPP is that everything ever captured about a customer can be accessed by a bank employee. The drawback is cost. From a technology standpoint, it also limits flexibility related to accessing outside data sources and the danger that, at some future point, a single database, no matter how comprehensive, will be unable to accommodate all of an organization's needs.

⁴ Capital One 2007 Annual Report

⁵ Case InPrint-Louis, Ray, and Shoup, Inc.

An alternative to MPP is symmetrical multiprocessing (SMP), which links many existing customer information databases as well as other internal and external data services together to create a “virtual” consolidated database.⁶ This technology, though it has been around longer than MPP, has gained renewed popularity because of its ability to add new data sources as they become available or replace current resources to create an ever-increasing and more robust database.

4. Determine Channel Economics

As the ability to better understand buyer values and propensities becomes further refined, one of the benefits is an enhanced ability to align distribution channels to customer preferences. However, to take full advantage of this benefit both from a customer service and bottom line perspective, banks must develop an understanding of the true economics of each distribution channel. Determining channel economics is a complex process that requires the development of models to account for investments, customer usage, other factors related to usage (e.g., time of day, cost, and availability of alternatives), and competing means for fulfilling a given need. However, once established, the benefits these models are capable of providing, when coupled with enhanced customer information, are enormous.

An excellent example of this concept in action is Wells Fargo Bank. Wells Fargo’s success with on-line banking, particularly where it had limited or no physical branches (stores) on the East Coast prior to its acquisition of Wachovia Bank, demonstrates the power and benefits of channel economics. The bank’s ability to identify and develop customer relationships in geographies outside its footprint was in large part based on its well-developed understanding of the economics of these respective channels and keen insights into buyer values and propensities. The on-going challenge for Wells Fargo and others will be to continue to adjust the mix of channels to accommodate changing customer preferences to satisfy customers who cross channels based on specific needs.

5. Develop Cross-Functional Platforms

As customers experience the benefits of multiple delivery channels, it is increasingly important to provide consistency in terms of “look and feel.” This is an important concept both in terms of attaining service delivery excellence and the cost to support these delivery options.

- How can multiple channels be supported from a technology and infrastructure perspective?
- What can be done organizationally to optimize the benefits to both the customer and the bank?

One of the most important considerations related to multiple delivery channels, particularly given the technology investments required to support them, is to plan for the future. Simply put, much thought needs to be given to not only what technology may be appropriate to optimize today’s branch network, but what platform is flexible enough to accommodate a move into telephone banking Internet banking, and mobile banking. Very closely tied to the technology

⁶ Wikipedia

considerations are the infrastructure considerations, including facilities, telecommunications, and vendor support.

A critical factor in minimizing the technology and infrastructure costs to support multiple channels is the development of cross-functional platforms. Banks are notorious for being highly structured around function and, as a consequence, have created highly inefficient fiefdoms based primarily on products and business units. Identifying common processes, such as customer service, can allow banks to eliminate separate service groups for liability, lending, and retirement products and to handle most routine inquiries with generalists supported by a relatively small number of product specialists. This concept is straightforward, but very difficult to implement since business and product managers in banks are reluctant to give up functions and headcount for fear of loss of their power base. In most cases, however, both customers and banks lose under a highly functional structure. Moving toward cross-functional processes and a related organizational structure requires a rethinking of incentives and the notion of ownership of the customer. Transition of the ownership of the customer from a specific channel (today, the branch) to the bank owning the customer is probably also required, but has many implications, particularly from an accounting perspective.

Many consumer product companies and retailers have already successfully developed both the technology and infrastructure to support multiple delivery channels and cross functional processes. Within financial services, Charles Schwab & Co. has been particularly effective in deploying a combination of physical branches, telephone delivery and Internet capabilities supported by common technology and infrastructure. Fidelity Investments and T.D. Ameritrade have also been very successful in the implementation of cross-functional platforms.

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Achieving service delivery excellence and profitability need not be mutually exclusive. In fact, if done properly, the two should go hand in hand. As banks face the challenges and the opportunities of a changing and consolidating industry, it is more important than ever that they compete based on an enhanced value proposition. Today's financial services customers want *both* excellent service and competitive pricing—they have come to expect it as consumers. Therefore, banks must strive to meet and exceed these buyer values and utilize the techniques, tools, and discipline to do so profitably. For tomorrow's winners in banking it will be done.

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