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Why economic difficulties can lead to Operational Excellence

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The current credit crunch and economic slow down presents a number of challenges to the financial services community across a number of fronts. Firstly, customers are becoming more demanding and less loyal as they seek flexible low cost solutions, cost transparency and value for money. Next, there is increased pressure from external bodies such as the FSA, UK parliamentary committees and the EU to address compliance issues. Lastly, from an internal perspective, there is renewed emphasis on liquidity and credit risk management policies and processes. These challenges are having a direct impact on the profitability of our financial institutions. The leading players in the market place are facing these challenges and riding out the storm by adopting an Operational Excellence agenda and aligning their people, processes, organisational and operation structures, processes, technologies and control mechanisms to meet customer, external and internal requirements.

Faced with increased fuel and food prices and lower wage increase settlements, consumers are clearly taking steps to draw in their belts and seek value for money. For example, recent surveys reveal that consumers who rely on one major supermarket chain for their weekly grocery requirements are spending 46% more and wasting one third of purchases more than those customers who shop around using a combination of low cost retailers such as Aldi and local high street outlets to meet their needs. Likewise, customers are far more willing to switch energy suppliers in their struggle to manage their finances during the current situation of ever increasing prices. The financial services industry is not immune to this change in consumer buying patterns. Cross selling ratios of 1.5 products per customer as opposed to three or four is more the rule than the exception in today's environment. The increased use of price comparison web sites clearly demonstrates the willingness of customers for financial products to switch allegiance and not to rely on one institution to meet all of their financial service and product needs. A recent survey carried out by Thomson, Reuters and Lipper on behalf of the BBC demonstrated that £1,000 invested in an average basket of unit trusts on January 1st, 2000 would have yielded a return of £1,094 by August, 2008. This compares with a return of £1,358 for the same amount invested in a typical instant access savings account. Performance like this has resulted in falling customer confidence in the pensions and securities market and the desire to seek out suppliers who can offer low cost, flexible and innovative solutions that allow freedom to react to market conditions.

The dilemma, therefore, facing our financial institutions is how to offer a bespoke service to customers and increase the share of wallet at a low cost. Winners in the marketplace are adopting an Operational Excellence agenda in order to typically reduce turnaround times by 70% to 80%, reduce the cost of operations by 30% and reduce errors by 40%. This is achieved by configuring operations around continuous flow processing units that reflect the voice of the customer and meet their individual needs. The beauty of the approach allows organisations to roll out the improvements without disruption to business as usual. Gone are the days of setting up massive business change and process reengineering teams. The workforce is empowered to link processes, standardise processes, eliminate duplication, balance work loads and create a rhythm that allows the organisation to fully meet customer requirements at the lowest cost possible.

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However, workforce empowerment cannot go unchecked. There is a whole world of regulation and compliance to consider. In recent years we have witnessed a substantial increase in compliance and regulation requirements as a result of the collapse of the dot com market, 9/11 and the Enron financial reporting scandal making Basel II, SOX, AML, IAS, GAAP and the like part of our every day language. The typical response by our financial institutions has been to approach the introduction and maintenance of regulatory and compliance requirements as they arise resulting in the creation of separate processes and procedures to deal with each requirement. Estimates vary but it is reckoned that financial institutions are paying anything from £250 - 500 millions each on compliance activities. In the world of Operational Excellence we recognise the need to incorporate regulatory and compliance requirements into an enterprise-wide process. Adopting this approach results in the elimination of identical processes, information-gathering, reporting and testing activities being carried out in independent silos. Strategic, operational and remedial compliance activities are incorporated into an integrated enterprise-wide approach that results in typical compliance cost reductions of 20-30%. Clearly as the number and complexity of compliance requirements increases the winners in the marketplace will be those institutions that recognise the need to create competitive advantage through reducing the cost and managing the compliance work load effectively and efficiently.

Finally, the collapse of the US sub prime mortgage market has reverberated throughout the world and renewed our focus on liquidity and credit risk management. Holding more liquid assets and enforcing stricter credit criteria will reduce profitability. Operational Excellence will not in itself influence an organisation's attitude to liquidity or credit risk management. It will, however, help to determine the customer management processes required for our financial institutions to embark on service excellence programmes, increase cross selling ratios, increase share of wallet and reduce the time it takes to design, implement and introduce new products and services to the market.

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John Slavin is Head of Practice in Scotland for Venturehaus, the market leading training and consultancy firm specialising in Operational Excellence for financial services. A Business Change Management, Lean Six Sigma expert and Six Sigma Master Black Belt with over twenty years experience of leading, managing and delivering a wide range of large and complex corporate transformation, business process reengineering, process improvement, shared services and outsourcing, change management and new business development programmes and projects for clients in Europe (East and West); America (North and South); the Middle East; and Asia.

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