

## Operational Improvement: A Penny Saved is a Penny Earned!

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A family friend recently shared her experiences with grocery store “couponing.” She sparked my interest when she bought \$55.00 worth of groceries for only \$5.00. After conducting some research I found this smart mom was using business process improvement, key performance indicators, and “lean” tactics to save money for her family. It took some time and it took some effort, but the results were impressive. After all, as quoted by Ben Franklin “a penny saved is a penny earned.”

These lessons in savings can also apply to operational improvements for banks and other financial services providers. While the percentage of operational improvement savings may not be as dramatic as the couponing example above, the total value can be substantial.

There are likely sizeable savings opportunities for product, process, and operational areas at your organization. And unlike coupons which typically expire, operational improvements yield recurring annual benefits. As such, operational improvements are critical for all financial services executives.

The five key areas that will be discussed in this white paper include:

- Operational Cost Reduction
- Increasing Operational Capacity
- Leveraging Operational Improvements to Drive Revenue
- Outsourcing and Offshoring
- Focus on the Customer

As you evaluate operational improvement opportunities you may find multiple areas that could be worth further investigation. Consider the benefits for your customers, employees,

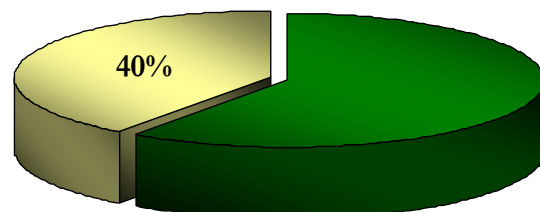
executive management team, and shareholders. With more demands on operational areas from the ongoing and increasing burden of new and existing regulatory compliance, any savings are helpful. Everyone wins when you eliminate waste.

### Operational Cost Reduction

The goal of operational cost reduction is to lower costs by eliminating non-value added activities through business process improvement. Each operational area must drive a high level of productivity, quality, and output for each dollar spent. This includes all internal and external expenses such as technology, staff, and third-party vendors. The key is to identify and eliminate waste by measuring and defining changes that reduce cost, improve service, or both.

Business process improvement initiatives may include a business management strategy such as Six Sigma that identifies and removes errors and reduces process variability. In addition, many firms employ lean manufacturing. Often referenced as simply “lean” this concept focuses on cost reduction while also creating customer value. A study by the Corporate Executive Board on lean manufacturing for financial services firms identified that at least 40% of operational expenses result from items “that add no value to the customer and therefore should be eliminated.”

#### Potential "Lean" Operational Expense Savings



Source: Corporate Executive Board

Lean operational cost reductions are not focused on specific employees or departments but rather helping organizations become more efficient. The report indicates that institutions that leverage lean techniques report cost reductions of 20 - 40% within 18 months<sup>1</sup>.

Banks and other financial services providers must plan for the future since cost reduction is and will continue to be a key issue. As a result, institutions need to rethink operational infrastructure, business strategies, and methods of delivery. It may be helpful to solicit ideas from both internal and external stakeholders to identify opportunities to reduce overall operational costs.

To create a sustainable and meaningful cost reduction initiative, executives must consider items such as staffing expenses, facility management, information technology, and the costs of various vendor partners. Some institutions may handle this process internally, but many incorporate independent third-party experts possessing a combination of industry best practices and project management to lead these key initiatives. Whether these efforts are managed internally or externally, the results can be impressive.

### **Increasing Operational Capacity**

The first impulse of many individuals is to think of business process improvement as a tool designed only to reduce cost. However, it can also be used effectively to increase operational capacity. In the simplest terms, a more efficient operations area can achieve a higher volume. Engaging in increased operational capacity initiatives will pay solid dividends, particularly during periods of growth.

You may also reap benefits from increased capacity if you are able to consolidate sites or perhaps better support marketing campaigns and other sales efforts. Instead of reacting with overtime, part-time resources, or new hires, consider instead how operations could be redesigned to do more with less. What actions

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<sup>1</sup> Corporate Executive Board, "Lean Manufacturing for Financial Services." 2006.

can you implement to work smarter instead of just harder?

For many firms part of the solution is a comprehensive operational capacity management plan. Understanding the impact of changes in demand can allow for proactive measures when volumes are increasing or decreasing. Capacity models may also identify potential constraints and bottlenecks. Real savings occur with business process improvements resulting in shorter cycle times and sustainable reduced costs.



An added benefit is the ability to more effectively adjust to peaks and valleys of demand via an optimized process flow. For example, a collections staff that makes calls only during a typical 8:00am – 5:00pm work week will not generate the same success as a team calling during “prime time” hours. A small change such as this can provide a significant impact and allow firms to drastically increase effectiveness and capacity.

Another way to increase capacity is to engineer a process that minimizes hand-offs and allows an item to be worked and resolved efficiently. Preventing re-work can not only increase operational capacity, but can also have a positive impact on employee and customer satisfaction.

Finally, consider the operational work environment itself and better utilizing the space available. This can include considerations such as team configuration, workflow patterns, and non-essential task prioritization. One simple illustration is an employee walking to the fax machine versus using an electronic fax solution available on his or her desktop.

It may be possible to free up operational work space by removing furniture and equipment no longer used, sending archive items offsite, and imaging files as appropriate. However, as part of any reconfiguration it is important to consider the impact on the employee. For example, shrinking existing work space may have an inverted consequence on productivity.

## **Leveraging Operational Improvements to Drive Revenue**

There are two key opportunities for leveraging operational improvements to drive revenue. The first is focusing upon operational improvements that enable more sales, or make the sales process smoother for employees and customers. The second is to move operational tasks from front-line customer-facing employees to operational staff so that the front-line employees may have more time to focus on selling new services.

### Operational Improvements that Enable Sales

There is sometimes a disconnect between operations and sales. Instead of being on the same team the groups may feel they are working against each other. At one institution they lovingly referred to their partners in operations as the “sales prevention group.” I am sure the operations team had an equally flattering nickname for the sales team.

Often these groups are working against one another instead of both pulling in the same direction. By teaming together they can accomplish greater goals. For example, one best practice is to inform and educate the operations team on specific monthly sales and revenue volume targets. It can also be helpful to provide rewards and incentives for meeting key milestones. This can help operations staff relate to the bigger picture and synch their efforts with the monthly sales goals.

Likewise, it is helpful to review policies, procedures, and guidelines from the viewpoint of the customer and the customer-facing employee. It is important for sales and operations to share ideas for improvements with one another on this topic. Small changes in the process flow or moving the timing of certain events can save both

time and money. This can also increase customer satisfaction. Of course certain compliance, risk, and legal considerations cannot be changed – but it is important to know the difference in what is required and what is not.

### Give Frontline Employees More Time to Sell

Customer facing employees are often tasked with various routine operational functions. While the personal touch may be nice, many of these functions may be better performed by a centralized back-office operations team. This structure helps all involved by creating specialized skill sets for completing operational tasks and freeing the frontline employee to sell more.



This does not negate the value of the consultative sales process or top-notch customer service. Rather, this approach simply allows each team member to contribute in the most meaningful way to deliver great service and bottom-line results. This is especially important in a branch environment where it may be difficult to retain part-time employees with the required experience needed to conduct certain infrequent customer service functions.

## **Outsourcing and Offshoring**

The wave of outsourcing has flowed into shore, and back out to sea. There are those who have adopted outsourcing and integrated it into their business model while others have tried this approach and ultimately pulled functions back in-house. But it is established that some level of outsourcing is here to stay.

Most outsourcing initiatives are viewed as employee reduction and cost savings efforts. As such, they may be viewed as a threat to existing employees. As you consider outsourcing it is important to focus on creating a win-win relationship for all involved and to have the responsibilities, performance, and service levels defined upfront. Both firms should focus on a mutually beneficial partnership that delivers expected service levels. Maintaining a key point person within the organization to liaison and monitor the relationship is considered a best practice.

A recent report by *MarketsandMarkets* estimates that outsourcing of bank back-office activities will total over \$67 billion by 2015. The firm estimates annual market growth of 7.6 percent over the next five years. Additionally, it estimates banks and financial services companies in the US already outsource approximately 40 percent of their back-office functions.<sup>2</sup>

The key to success appears to be understanding exactly what you want. For example, are you outsourcing to reduce cost, increase capacity, provide peak-hour incremental support, or increase customer satisfaction? Are you looking to offshore, near-shore, or onshore your functions and specifically which tasks are included in the potential outsourcing? Finally, who are the potential partners and how can you adequately compare them to one another? Do you have existing relationships that you may be able to leverage?

Once you find an appropriate partner, how do you protect yourself contractually? As you consider the impact on your customer and internal staff, how will service-level agreements be determined and monitored? These are all questions that may be best answered before beginning the selection process.

Before making the move to an external outsource provider, carefully analyze potential internal partners. Banks often find that certain technology and capabilities may be used widely across the organization with minimal incremental costs. For

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<sup>2</sup> Outsourcing Magazine, "US bank outsourcing to hit \$67.2bn." September 01, 2010.

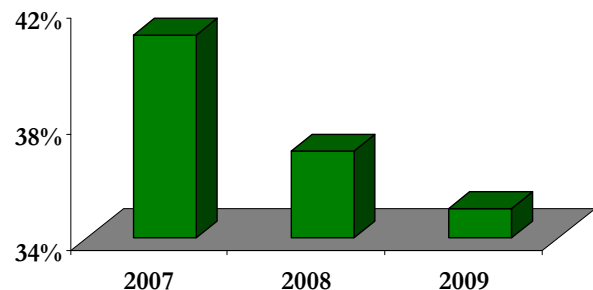
example, a regional bank used their collection dialer to provide debit card outbound calls. This process was previously outsourced by the bank. The incremental cost was about half of an external provider and delivered the same service with more control and better quality.

## Focus on the Customer

Is the term customer service an outdated and overrated concept or perhaps the start of a new revolution? When the term customer service is mentioned it means something different to nearly everyone. Few firms have made customer service a real core competency and as a result, overall bank customer service suffers.

According to J.D. Power and Associates, retail bank satisfaction and brand image have steadily declined since 2007. The study found that only 35 percent of customers are highly committed to their retail bank in 2009, compared with 37 percent in 2008, and 41 percent in 2007. The findings confirmed that highly committed customers give more referrals, use more products, and are much less likely to switch to another bank.<sup>3</sup>

### Highly Committed to their Retail Bank



Source: J.D. Powers and Associates.

Will customers withstand poor customer service or can a bank make the account "sticky" enough that customers won't leave? Is customer service now a prime focus with employees empowered to do the right thing on behalf of clients?

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<sup>3</sup> J.D. Power and Associates, "Customer Commitment to Retail Banks Declines for a Second Consecutive Year." May 19, 2009.

Consider the retailer Nordstrom, long recognized for their superior customer service. Instead of a comprehensive formal return policy employees have always been provided with the ability to do what they believe is best to satisfy the customer in a particular situation. They are simply told to “use good judgment.” According to a company spokesperson, “in return, we believe customers treat us fairly.”

The results are real as Nordstrom ranks in the top 10 in the 2010 MSN Money-Zogby International customer-service survey. Over 36 percent of respondents who interacted with Nordstrom rated Nordstrom's customer service as “excellent.”<sup>4</sup> And while financial services may be a bit more complicated than retail, there is indeed a lesson to be learned.

Some things to consider may be a list of those items that most customers detest. Bankers probably know most of these but perhaps need to be reminded:

- Long wait times
- Unnecessary or unexpected fees
- Lack of communication (i.e. during loan processing)
- Lack of follow-up
- Constantly being sold services and products without bank employee understanding their true needs.

Evaluating the list above can prove fruitful. You may also wish to include additional “pet peeves” specific to your client base. Each financial services provider spends so much time and money in attracting new customers; it only stands to reason that these firms would also spend an appropriate level of effort to retain clients.

## Conclusion

In many ways operational improvements are similar to the children's game “Operation” where you delicately try to remove the knee bone with the tweezers. If you fail you will hear that familiar and shocking “buzz.” Since most of us are not

surgically trained physicians, how can we be expected to succeed with such precision?

Trial and error is also possible with operational improvements, but think of the actual cost of mistakes and missteps as well as the opportunity cost of delaying improvements with recurring annual benefit. It is unlikely we would consider undergoing real-life delicate surgery without a board certified surgeon. Likewise, operational improvements generally can benefit from bringing in the experts. Below are some ideas to consider that can increase the probability of your success:

- Define the goals of operational improvement upfront (cost savings, revenue enhancement, capacity, or other).
- Confirm the scope of the project. Which areas will be included and excluded? Scope creep can diminish project success.
- Consider internal staff available and the time/cost benefit of deploying dedicated resources (internal or external).
- Retain the specific resource(s), subject-matter expertise, industry knowledge, and ability to obtain competitive best practices.
- Balance the desire to limit external spending with the value of accelerating change (and financial benefit).
- A common carpentry best practice is “measure twice and cut once.” Carefully consider decisions and double-check your facts before taking action.

Consider taking that first step today. As Mark Twain once stated, “The secret of getting ahead is getting started. The secret of getting started is breaking your complex overwhelming tasks into small manageable tasks, and then starting on the first one.”

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<sup>4</sup> Aho, Karen, “10 companies that treat you right,” MSN Money. May 18, 2010.

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**Wisemar** is a management consulting firm providing dynamic solutions for the alignment of people, processes, products, and technology. The firm specializes in helping financial services clients through business process improvement, change management, and corporate strategy engagements. Wisemar was founded based on one simple principle – “client satisfaction.”

Wisemar leverages experienced senior consultants with a structured engagement process to deliver consistent positive results for clients. Wisemar executives and consultants have worked with the majority of the top 50 US banks; regional, community, and direct banks; and many of the top vendors and partners in the financial services space. This diverse experience helps provide the framework necessary to deliver innovative best practices to clients to help them improve performance. Wisemar is headquartered in Charlotte, NC.

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