

Considering Operational Improvement: There Is No Time Like The Present

Re-evaluating daily operations can improve office efficiency while securing savings.

By Brian King

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 shopper was using business process improvement, key performance indicators, and “lean” tactics to save money for her family. It took some time and effort, but the results were impressive.



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These lessons in savings can also apply to operational-improvements for mortgage banks and other financial services providers. Although the percentage of operational-improvement savings may not be as dramatic as the couponing example, the total value can be substantial. And unlike coupons that typically expire, operational improvements yield recurring annual benefits.

There are five key ways operational improvement can be sought:

- Reducing operational costs;
- Increasing operational capacity;
- Leveraging operational improvements to drive revenue;
- Outsourcing and offshoring; and
- Focusing 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.

Reducing operational costs

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. A study by the Corporate Executive Board on lean manufacturing for financial services firms found that at least 40% of operational expenses result from items “that add no value to the customer and that therefore should be eliminated.”

Lean operational cost reductions are not focused on specific employ-

ees or departments, but rather on helping organizations become more efficient. The report indicates that institutions that leverage lean techniques report cost reductions of 20% to 40% within 18 months.

Financial services providers must plan for the future, as 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 who possess a combination of industry best practices and project-management skills 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 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 that result 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 8:00 a.m. to 5:00 p.m. workday 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 handoffs and allows an item to be worked and resolved efficiently. Preventing re-work not only increases operational capacity, but can also have a positive impact on employee and customer satisfaction.

Finally, consider the operational work environment itself to better utilize 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 oper-

ational work space by removing furniture and equipment that are no longer used, sending archive items off-site, 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

There are two key opportunities for leveraging operational improvements to drive revenue. The first is to focus on operational improvements that enable more sales, or to 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 have more time to focus on selling new services.

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. One institution's sales team referred to their partners in operations as the "sales prevention group" - and one can assume that the operations team had an equally flattering nickname for the sales team.

Oftentimes, these groups are working against each other, 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 on this topic.

Making small changes in the process flow or moving the timing of cer-

tain 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.

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 everyone involved by creating specialized skill sets for completing operational tasks and freeing front-line employees 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 the shore, and back out to sea. There are those who have adopted outsourcing and integrated it into their business model and others who 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.

But if you consider outsourcing, it is important to focus on creating a win-win relationship for everyone involved and to have the responsibilities, performance and service levels defined up front. The onshore and offshore firms should establish 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 an annual market growth of 7.6% over the next five years. Additionally, the group estimates that banks and financial services companies in the U.S. already outsource approximately 40% of their back-office functions.

Here are some questions to ask yourself: 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 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. Financial services companies often find that certain technology and capabilities may be used widely across the organization with minimal incremental costs.

For example, one regional bank used its collection dialer to provide debit-card outbound calls. This process was previously outsourced by the bank. The incremental cost was

about half of that charged by an external provider and delivered the same service, but with more control and better quality.

Focusing on the customer

Is the term “customer service” an outdated and overrated concept or perhaps the start of a new revolution? Customer service means something different to nearly everyone. Few firms have made customer service a real core competency, and as a result, overall bank customer service has suffered.

According to J.D. Power and Associates, retail bank satisfaction and brand image have steadily declined since 2007. The study found that only 35% of customers said they were highly committed to their retail bank in 2009, compared with 37% in 2008 and 41% 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.

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?

Some common customer-service-related complaints include the following:

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

Reviewing this list 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.

In many ways, operational improvements are similar to the children’s game “Operation,” in which 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 cost of delaying improvements with recurring annual benefit. It is unlikely we would consider undergoing real-life delicate surgery without a certified surgeon. Likewise, operational improvements generally can benefit from bringing in the experts.

As the financial services industry and the wider economy continue to undergo profound changes, this is certainly the right time to re-evaluate operational improvements. To borrow a line from Mark Twain, “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.” **SME**

Brian King is president of Wisemar Inc., headquartered in Charlotte, N.C. He can be reached at (704) 503-6008.