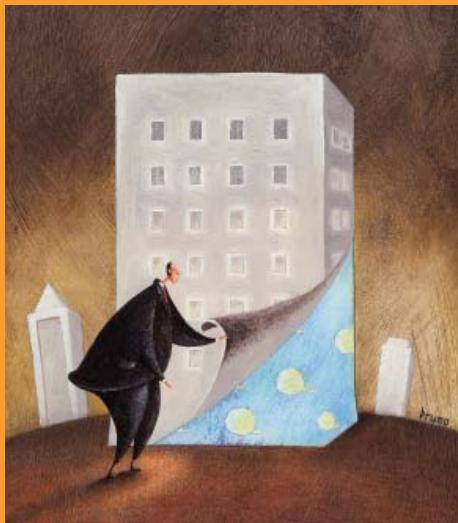


# BCG

OPPORTUNITIES  
for ACTION

FINANCIAL SERVICES



■ *Given the influence operations has on the way a customer views a bank, banks should view it as a strategic asset to be leveraged rather than a source of costs to be managed*

■ *To this end, The Boston Consulting Group has developed an approach called lean advantage, which looks at operations holistically instead of through a one-dimensional, cost-oriented lens*

■ *Lean advantage searches for opportunities to improve end-to-end processes and build strategic advantage by transforming operations and instilling cultural and organizational change*

■ *The lean-advantage approach has helped banks around the world complement strong efficiency improvements with impressive gains in customer satisfaction and loyalty*

## Banking on Lean Advantage

The imprint of operations on a bank's performance is hard to overstate—and extends well beyond the back office. Although the word *operations* implies something mechanical—perhaps impersonal—such activities and processes have a profound impact on customer satisfaction and retention. More than many other factors, operations influence how a customer views a bank. Years ago, pioneers in other industries—notably the automotive industry—began seeing operations as a strategic asset to be leveraged rather than a source of costs to be managed. They looked at operations holistically instead of through a one-dimensional, cost-oriented lens. In the late 1970s, for example, Toyota began reengineering operations to deliver not only huge cost efficiencies but also a superior customer experience, which led to an enviable strategic advantage.

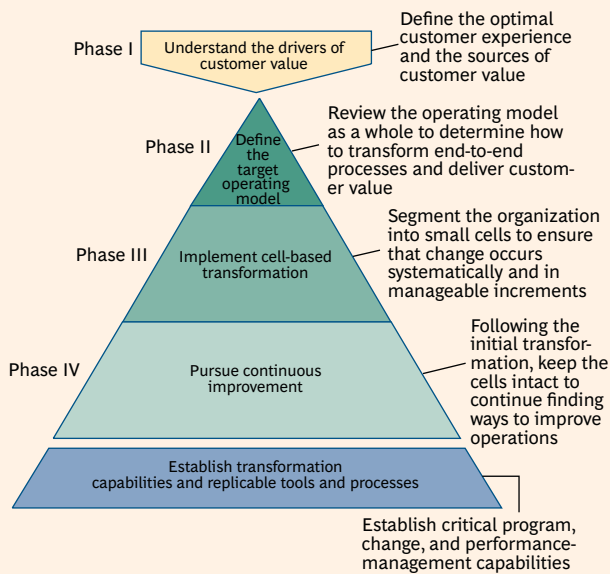
The Boston Consulting Group has been using a similar approach in financial services. This approach—which we call *lean advantage*—helps banks complement strong efficiency improvements (cost reductions as high as 30 percent) with impressive gains in customer satisfaction and loyalty, all while building internal capabilities to ensure continuous improvement.

### How Is Lean Advantage Unique?

Lean advantage is unique in several ways. First, it takes a strategic view of operations. The goals of operations improvement—for example, lower costs, higher revenues, and improved customer satisfaction—are determined by a bank's strategic priorities. More often than not, these priorities call for improvements to the customer experience, which is why lean advantage sets out to understand the drivers of customer value. (See Exhibit 1.) The priorities for operations improvement are then translated into hard, measurable metrics.

Second, before any changes are made, a lean-advantage program reviews the entire operating model as a whole—not as disconnected parts—looking for opportunities to improve end-to-end processes in order to create strategic advantage. The outcomes of this approach are therefore much deeper and longer lasting than the results of conventional operations

### Exhibit 1. Lean Advantage Begins with an Understanding of Customer Value



Source: BCG analysis.

programs. Success is gauged not by the sum of one-off cost improvements but by the overall profitability generated through fundamental transformation. Lean advantage often precipitates changes to the overall organization as well.

Third, a lean-advantage program supplements the best tools from Six Sigma methodologies and lean practices—such as value stream mapping—with BCG’s own tools for improving operations. As a result, a lean-advantage program is able to cover ground and explore opportunities that conventional programs often overlook, such as outsourcing.

Fourth, the lean-advantage approach places a premium on building capabilities to underpin ongoing change. It “trains the trainer,” creating specialists who are capable of teaching lean-advantage techniques, and establishes replicable tools and processes that can help the organization sustain a culture in which operations are always seen as a source of strategic advantage. This focus on continuous improvement underscores the depth and permanence of the transformation achieved through lean advantage.

#### Phase I: Understand the Drivers of Customer Value

Banks would be hard pressed to find customers who think in terms of operations or back- and front-office

activities. Instead, the customer experience is defined by events: How fast did the bank respond to my request, approve my loan, or execute my transaction? Understanding the connection between operations and the customer experience is essential to using operations as a strategic asset.

To this end, the lean-advantage approach begins by asking, What drives customer value? Talking to a bank’s customers and executives and mining its data—for example, its surveys and inventories of customer complaints—help pinpoint where improved operations can have a multiplier effect on profitability.

Working with a large retail bank that had a poorly rated customer experience, we identified about a dozen drivers that could significantly enhance the bank’s ability to deliver customer value. These drivers included reducing the four-day wait for a loan approval to a conditional “on the spot” approval, tripling the percentage of straight-through processing of broker applications, and lowering the cost of originating a loan by about one-third.

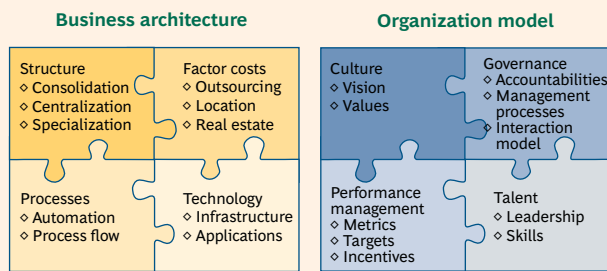
A lean-advantage program does not downplay cost savings—they are, in fact, a substantial part of most operations programs—but it does check them against potential revenue gains. For a large European bank, we found that improving the turnaround time for a mortgage application would produce revenue gains equal to five times the savings that could be squeezed out of mortgage operations. Other banks have used lean advantage to boost customer satisfaction and loyalty by as much as ten percentage points and increase sales by 5 to 10 percent.

#### Phase II: Define the Target Operating Model

In our experience, it is important to ensure that, at a high level, the operating model aligns with the drivers of customer value. Phase II takes its cues from the goals set in Phase I and asks, What changes are required to meet those objectives? Reviewing the operating model against the drivers of customer value highlights the major changes required in end-to-end processes. This holistic approach ensures that lean advantage is not limited by the boundaries of different kinds of operations, such as manufacturing and distribution.

We use a two-part framework to evaluate and refine the operating model. (See Exhibit 2.) The business architecture defines how operations are configured and

## Exhibit 2. Lean Advantage Examines Operations on Two Major Dimensions



Source: BCG analysis.

addresses structural issues such as the extent and nature of consolidation, as well as factor costs, processes, and technology. This perspective spotlights opportunities to reduce complexity—for example, by streamlining the product portfolio. The organization model, which is often ignored in operations programs but is critical to ensuring change, describes how the business is actually run. It focuses on culture, governance, performance management, and talent.

In our work for a top North American bank, we found that the client had a relatively robust business architecture but had major issues in the organization model. The shared-services unit, for example, was being measured and rewarded on a total-cost basis. As a result, it focused more on controlling volumes and less on reducing controllable unit costs. This imbalance led to friction between the shared-services unit and revenue-generating business units.

### Phase III: Implement Cell-Based Transformation

After defining the overall operating model, we segment the organization into small cells to ensure that the transformation is conducted systematically and in manageable increments. (Some banks that have already aligned their operating models with their strategic priorities begin a lean-advantage program in Phase III.) For a French bank, we defined 24 cells—17 were product based and the rest were aligned with various support services.

Each cell has a dedicated team of people and specific leadership roles. A cell sponsor provides strategic direction and a lean-advantage facilitator helps team members make the most of the tools and techniques for improving operations. To ensure that the transformation of operations is replicable—in other words, that teams

can revisit operations and make additional improvements following the conclusion of a lean-advantage program—cell-based transformation uses a standardized approach that includes tested templates and formal milestones. A lean-advantage program also uses both formal and on-the-job training to embed transformation capabilities and develop expertise in replicable tools and processes.

The cell team traces opportunities back to the drivers of customer value, but the results usually include a mix of cost and revenue improvements. Our lean-advantage work with the corporate-banking arm of a large global bank is scheduled to deliver more than \$800 million in revenue enhancement along with more than \$1.2 billion in efficiency improvements over a three-year period.

### Phase IV: Pursue Continuous Improvement

Following the redesign, a lean-advantage program shifts its focus to continuous improvement. Cells are kept intact and are expected to come up with new ideas for improving operations. Tools such as *kaizen* action sheets, which capture the output from brainstorming sessions, can be used to track and manage this process. Earlier efforts to refine the organization become crucial at this stage. In particular, the bank must already have metrics in place that allow its executives to track the delivery and longevity of operations improvement.

The focus on continuous improvement following the initial transformation of operations enabled one of our clients to achieve annual savings of about 3 to 4 percent of the total cost of operations, over four years. These savings grew out of more than 3,500 *kaizen* action sheets, of which more than 1,600 were implemented. Most required little investment beyond the cell teams' time.

### Making It Work

The benefits of a lean-advantage program include improved value for customers, lower costs for the bank, and the development of organizational capabilities that support a culture of continuous improvement. From our experience, however, banks must focus on the following imperatives before they can tap the full potential of lean advantage.

- ◊ *Start with a strong commitment.* Lean advantage—as much a cultural transformation as it is a process redesign—requires time to reap the full benefits. From

the outset, senior leaders, including the CEO, must make a commitment to stay the course. An executive should be appointed to assume responsibility for the program.

- ◇ *Follow the value.* Taking an end-to-end view of operations from the customer's perspective is the only way to ensure that the full benefits of transformation are identified. In particular, banks should avoid focusing only on back-office costs and should recognize that the sources and relative priority of value vary. For a large European bank, revenue enhancement emerged as the key benefit of lean advantage. At an Asian bank, efficiency was the greatest source of improvement. In a global bank, most benefits were tied to the development of an operations model that facilitated international expansion.
- ◇ *Plan for the norm.* It's common to find the dimensions of operations redesign dictated by the exceptions rather than the rule, and that leads to greater costs and complexity. The best models are designed to handle normal operations, while providing enough flexibility to accommodate exceptions.
- ◇ *Include technology in the transformation.* In financial services, more than in most other industries, IT and operations are interdependent. The best transformations look for ways to refine operations and technology simultaneously.
- ◇ *Institute a new way of working.* Banks must not underestimate the organizational side of transformation. Only by embedding a culture of continuous improvement—which includes training a cadre of lean-advantage experts and providing the governance and performance management systems to track change—can banks realize the full benefits of lean advantage.

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Lean advantage is anything but superficial: it starts by questioning how things are done. By taking an expansive, strategic view of operations, a lean-advantage program allows banks to achieve substantial cost savings—on the order of 20 to 30 percent—while delivering greater value to customers. The net effect is an improvement in profitability whose longevity is ensured through organizational and cultural change.

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