Building a customer-centric operating model

Aligning segments, products, and channels
Contacts

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### Financial institutions can expect to compete in a difficult, low-growth environment for the foreseeable future

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
</table>
| Less leverage                         | Continued reduction in consumer debt (~US$120B since mid-2008)  
Significant decline in business borrowing                                                                 |
| Higher savings rates                  | Increased savings rates for consumers (from -0.2% to 4% since 2008)  
- Reduced consumer spending  
- Increased retail funding for banks                                                                 |
| Government regulation                 | Increased regulation  
- Limited risk taking  
- Increased cost of operations  
- Negative impact on fee revenue                                                                 |
| Consolidation                         | Continued consolidation of smaller banks (e.g., MB Financial Bank and Corus Bank), facilitated predominantly by FDIC  
Opportunistic consolidation by larger banks                                                                 |
| Higher levels of unemployment         | New, higher level of baseline unemployment  
- Marginal increase in income levels  
- More nonperforming assets compared to past                                                                 |

Source: Strategy& analysis
**Competition will be intense as players focus on attractive segments**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Profitability</th>
<th>Trends 2009–15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass</td>
<td>↓</td>
<td>Future income stream hit by unemployment and flat/falling wages&lt;br&gt;Demand for lending products contracts as customers seek to reduce leverage and increase savings rate&lt;br&gt;Majority of assets tied up in home, with flat outlook for home prices</td>
</tr>
<tr>
<td>Mass affluent</td>
<td>↑</td>
<td>Income and home assets hit by downturn but recovering quicker than mass as earning power more resilient and wealth more diversified&lt;br&gt;Debt servicing capacity recovering, along with balance sheets and income, leading to some lending growth</td>
</tr>
<tr>
<td>High net worth</td>
<td>←</td>
<td>HNW segment’s wealth is recovering along with the stock market&lt;br&gt;Demand for investment advice from banks increases with newfound appreciation for potential investment risks and less appetite for do-it-yourself investing&lt;br&gt;Demand for debt recovers slowly as incomes and asset values rise</td>
</tr>
<tr>
<td>Retirees</td>
<td>↑</td>
<td>Population ages 65 and older to grow by 30% to almost 50 million by 2016&lt;br&gt;Deferrals of retirement in 2008–10, due to collapse of equity wealth, will reverse as market recovers&lt;br&gt;Demand increasing for investment products to supplement uncertain Social Security payments</td>
</tr>
<tr>
<td>Gen Y</td>
<td>↑</td>
<td>Generation Y and younger (ages 16–31) to grow from 26% to ~40% of the workforce by 2015&lt;br&gt;Comfortable using lower cost-to-serve channels such as online as their main interaction method</td>
</tr>
<tr>
<td>Small business</td>
<td>←</td>
<td>Appetite for, and access to, debt will recover slowly, and banks and businesses will continue to reduce debt&lt;br&gt;Small business profits to recover slowly, in line with the economy and consumer spending</td>
</tr>
</tbody>
</table>

Source: Strategy& analysis
Building wallet share with existing customers will be a major driver of growth

From the customers’ perspective, the new normal means consolidating relationships with one bank

– Build trust and relationship with an institution they believe did not fail them
– Access scarce credit lines
– Get better pricing for risk

From the bank’s perspective, this consolidation offers the best way to build sustainable earnings

– Growth through increased share of wallet
– Deeper relationships make it easier to understand risks
– Growth through wholesale channels/shadow banking system no longer feasible/desirable

Implications: Banks need to focus their core assets on the “existing customer base”

– Deeper customer insights
– More tailored value propositions
– Better understanding of risk

Source: Strategy& analysis
For many, winning in this environment will require moving from a transactional to consultative relationship model

Financial services relationship models

**Product-led cross-sell**

Cross-sell at point of sale to maximum products per customer

“When I opened my checking account, I automatically got a free savings account and credit card.”

**Product bundles**

Product bundles that cement a customer’s relationship with the bank

“I make one payment per month, that covers my mortgage and my line of credit — and if I avoid late payments for a full year, my savings account interest rate goes up.”

**Consultative**

Consultative services that identify customer needs and provide tailored solutions

“When I went in to roll over my retirement account, the bank’s officer also helped me rethink my life insurance needs.”

**Life stage**

Financial solutions that anticipate customers’ changes in life stage

“Our bank helped us save for a home, got us our first mortgage, and is now working with us as we save for retirement.”

Source: Strategy& analysis
**However, many organizations are structured by product and therefore not able to deliver a consultative customer experience**

<table>
<thead>
<tr>
<th>Typical operating model issues</th>
<th>Sample questions to address</th>
</tr>
</thead>
<tbody>
<tr>
<td>– No single accountability for defining the client experience and value proposition</td>
<td>– What is the role of segment vs. product vs. channel?</td>
</tr>
<tr>
<td>– Capabilities duplicated across the organization resulting in excess cost and suboptimal experience</td>
<td>– Who owns client insights and the ultimate customer value proposition?</td>
</tr>
<tr>
<td>– Product silos driving acquisition independently, not holistically approaching customers</td>
<td>– What is the difference between a product and a business?</td>
</tr>
<tr>
<td>– No accountability for the end-to-end customer experience</td>
<td>– How much local market tailoring of offerings is appropriate?</td>
</tr>
<tr>
<td>– Channels aligned with products — not integrated into a single experience</td>
<td>– How should segments, products, and channels work together?</td>
</tr>
<tr>
<td>– Legacy IT infrastructure not supporting a single customer view</td>
<td>– Who owns the P&amp;L, revenue, and cost of manufacturing?</td>
</tr>
<tr>
<td></td>
<td>– What should be the performance metrics for segments, products, and channels?</td>
</tr>
</tbody>
</table>

Source: Strategy& analysis
At the core of the issue, financial institutions need to clarify how segments, products, and channels interact to deliver the experience.

1. **Roles and responsibilities**
   What are the distinct roles of segments, products, channels?

2. **Capabilities**
   What differentiated, non-duplicative capabilities must each build?

3. **Interaction model**
   How should these groups interact in key processes like product development?

4. **Governance**
   How should they be measured to reinforce appropriate behavior?

Source: Strategy& analysis
**Segments must take on a lead role to set the value proposition, while products innovate and channels manage the experience**

*Example: roles and accountabilities*

<table>
<thead>
<tr>
<th>Role</th>
<th>Segment: Develop client insights and relationships</th>
<th>Product: Design, implement, and support products</th>
<th>Channel: Manage customer relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product development</strong></td>
<td>– Develop segment strategy and programs</td>
<td>– Generate ideas for new products and enhancements</td>
<td>– Collect local market insight and dynamics</td>
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<tr>
<td></td>
<td>– Set client value proposition</td>
<td>– Make product build-vs.-buy decisions and detail specifications</td>
<td>– Disseminate client point-of-sale feedback</td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>– Define pricing strategy (e.g., market positioning, relationship/exception pricing guidelines)</td>
<td>– Manage tactical pricing (e.g., rate resets, fee repricing)</td>
<td>– Structure deals based on client relationship and willingness to pay</td>
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<tr>
<td></td>
<td></td>
<td>– Gain understanding of competitive rates</td>
<td>– Manage exception pricing within guidelines</td>
</tr>
<tr>
<td><strong>Sales and service</strong></td>
<td>– Define client experience (e.g., targeted treatments, coverage model)</td>
<td>– Support sales process (e.g., identification of opportunities)</td>
<td>– Deliver sales and service to clients</td>
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<tr>
<td></td>
<td></td>
<td>– Develop content for online training, field calls, sales guides</td>
<td>– Ongoing relationship management</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>– Integrate risk management into overall segment strategy</td>
<td>– Integrate risk impact and regulatory requirements into product and pricing strategy</td>
<td>– Deliver sales and service within set risk management framework</td>
</tr>
</tbody>
</table>

Source: Strategy& analysis
### Capabilities must support roles — e.g., segments own client insights

#### Building blocks for client-insight-driven relationship model

<table>
<thead>
<tr>
<th>Segment</th>
<th>Product</th>
<th>Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research</td>
<td>Voice of customer</td>
<td>Segment strategy and value proposition</td>
</tr>
<tr>
<td>Client insights and analytics</td>
<td>Incentive and lead management</td>
<td>Marketing ROI</td>
</tr>
<tr>
<td>Centralized channel support</td>
<td>Competitive intelligence</td>
<td>Product and pricing strategy</td>
</tr>
<tr>
<td>Risk/compliance</td>
<td>Vendor management</td>
<td>Performance reporting</td>
</tr>
<tr>
<td>Knowledgeable relationship managers</td>
<td>Segment-specific branch network</td>
<td>Warm handoff across channels</td>
</tr>
<tr>
<td>Teaming and collaboration</td>
<td>Trained branch staff</td>
<td>Client education (channel capabilities)</td>
</tr>
</tbody>
</table>

Source: Strategy& analysis
The planning process is key to ensuring the appropriate level of collaboration is occurring across the organization

Illustrative

- Improve up-front planning with partners to reflect corporate objectives and gather insights
- Include: segment, product, channel, risk, treasury, finance, marketing, sourcing, partners, etc.
- Align strategic objectives to annual planning programs and quarterly planning initiatives
- Collaborate to make decisions
- Prioritize product development and enhancement projects within segments, across segments, and across lines of business
- Redefine segment, product, and channel role in pricing
  - Segment sets and reviews pricing strategy quarterly
  - Product owns tactical pricing
  - Channel manages relationship pricing
- Employ a cost-effective go-to-market model
  - Coordinate sales and support of core products through segment
  - Establish guidelines for product specialists

Source: Strategy& analysis

New interaction model
The performance management process, including KPIs, must support the desired customer-centric behaviors

Performance management example

### Corporate

#### Segments

- Mass
- Mass affluent
- High net worth
- Product
- Channel

#### Functions

- Operations
- Risk
- IT
- Treasury
- Marketing
- Compliance
- Finance
- Legal
- Tax
- HR

#### Performance review detail

Facilitate performance management conversations with all segments and functions as part of the performance review process

- Performance evaluation trends and outlook
- Performance issues, risks, and opportunities
- Recommended actions
- Recommended changes to plan (as needed)
- Proposed focus for next quarterly business review

Function-related topics can be raised in segment reviews as needed

Note: Products and channels are embedded in the segment reviews. Channels can have separate reviews as needed (geographic, division, etc.).

Source: Strategy& analysis
Finally, delivery platforms must be in place to successfully deliver on the promise

<table>
<thead>
<tr>
<th>Enablers</th>
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</tr>
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<tbody>
<tr>
<td><strong>Operations</strong></td>
<td>- Streamline end-to-end processes by taking a customer-back view to meet customer needs</td>
</tr>
<tr>
<td></td>
<td>- Create accountability and ownership for end-to-end processes to deliver desired customer experience</td>
</tr>
<tr>
<td></td>
<td>- Build process utilities (e.g., for consumer lending) by leveraging common processes to build scale and expertise</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>- Build customer management capabilities that enable relationship strategy (e.g., end-to-end workflow)</td>
</tr>
<tr>
<td></td>
<td>- Simplify current application complexity to deliver superior customer experience</td>
</tr>
<tr>
<td></td>
<td>- Create consistent data architecture to enable creation of client insights (e.g., 360-degree customer view)</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>- Build robust risk management governance aligned to lines of business (LOBs)</td>
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<tr>
<td></td>
<td>- Embed process to set risk appetite and respective risk tolerances/limits on LOBs and also at the department and product level</td>
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<tr>
<td></td>
<td>- Enhance capabilities to manage risk across the organization</td>
</tr>
<tr>
<td><strong>Support functions</strong></td>
<td>- Create strong support and business partnership aligned to the new operating model</td>
</tr>
<tr>
<td></td>
<td>- Build support function shared services to capture scale and expertise required to deliver services efficiently and effectively</td>
</tr>
</tbody>
</table>

Source: Strategy& analysis
The result is a much more flexible operating model that delivers a consultative client experience

**Integrated relationship driven operating model**

**Segments**
- Consumer
- Commercial
- Wealth
- Corporate
- Business banking

**Channels**
- Branch
- RM
- Online
- Call center

**Products**
- Credit
- Deposit
- Payments
- Capital markets
- Asset mgmt.
- Mortgage

**Shared services**
- IT and operations
- Support functions
- Enterprise-wide risk management

**Corporate center**

Build client insights and develop the value proposition

Manage the client experience

Innovate products and solutions

Lowest cost fit for purpose delivery

Set the direction of the bank

Source: Strategy& analysis
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