
*Building a customer-
centric operating model*

&

Aligning segments,
products, and channels

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

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

New normal

Subdued balance sheet growth

Higher cost of funding

Regulation driving higher costs and lower fee revenue

Lower return on equity

Source: Strategy& analysis

Competition will be intense as players focus on attractive segments

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

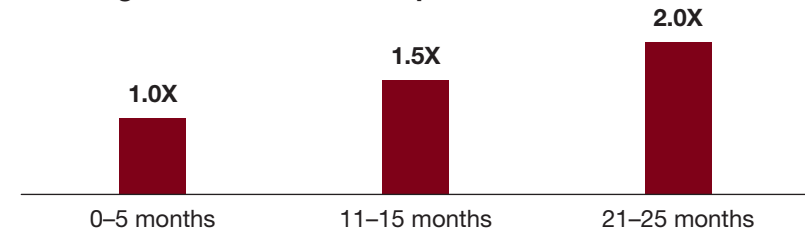
Source: Strategy& analysis

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

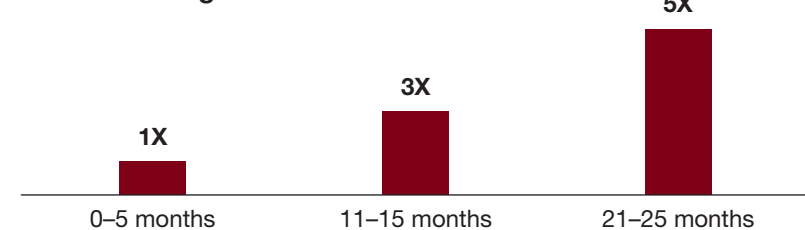
Growing customer relationship...



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

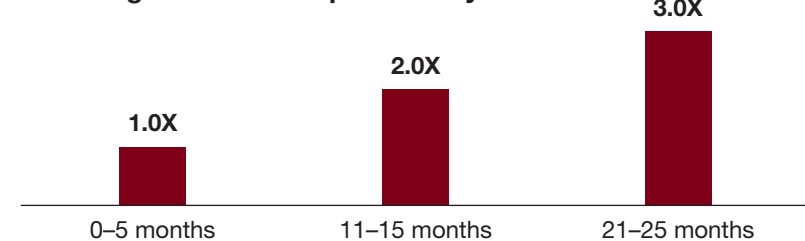
...results in higher balances...



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

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

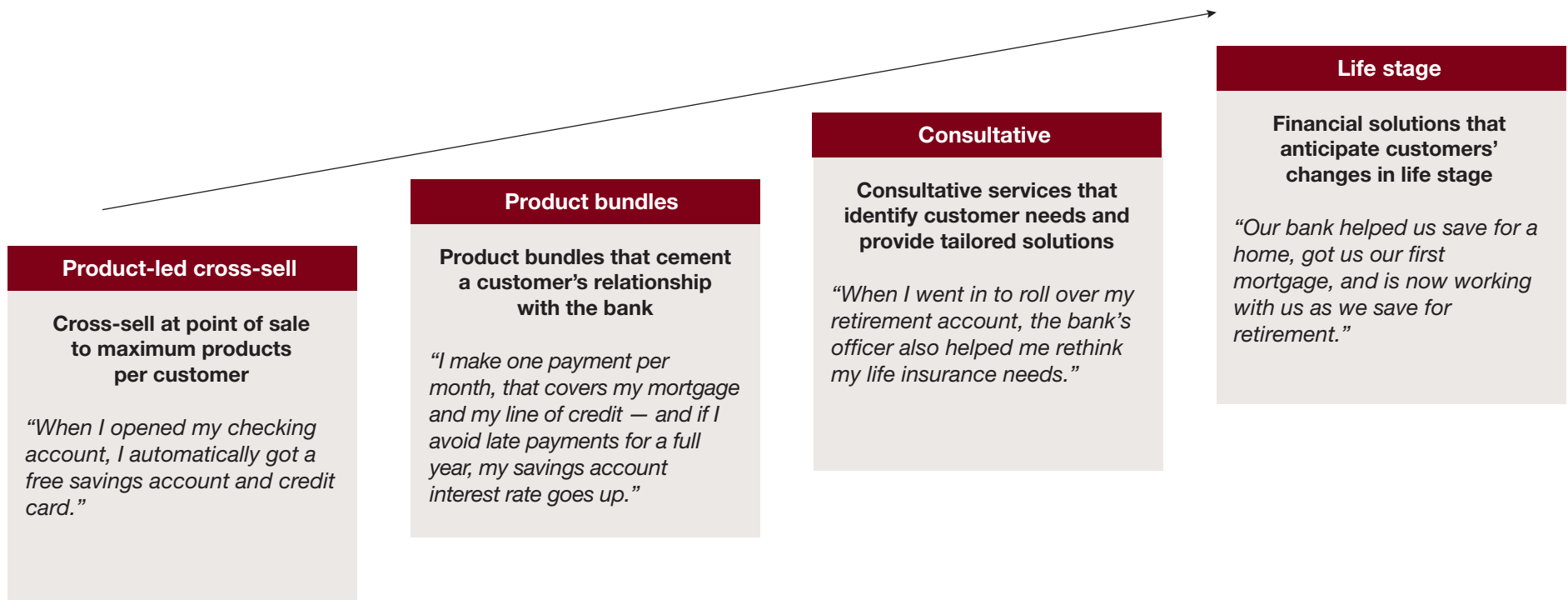
...and higher customer profitability



Source: Strategy& analysis

For many, winning in this environment will require moving from a transactional to consultative relationship model

Financial services relationship models



Source: Strategy& analysis

However, many organizations are structured by product and therefore not able to deliver a consultative customer experience

Typical operating model issues

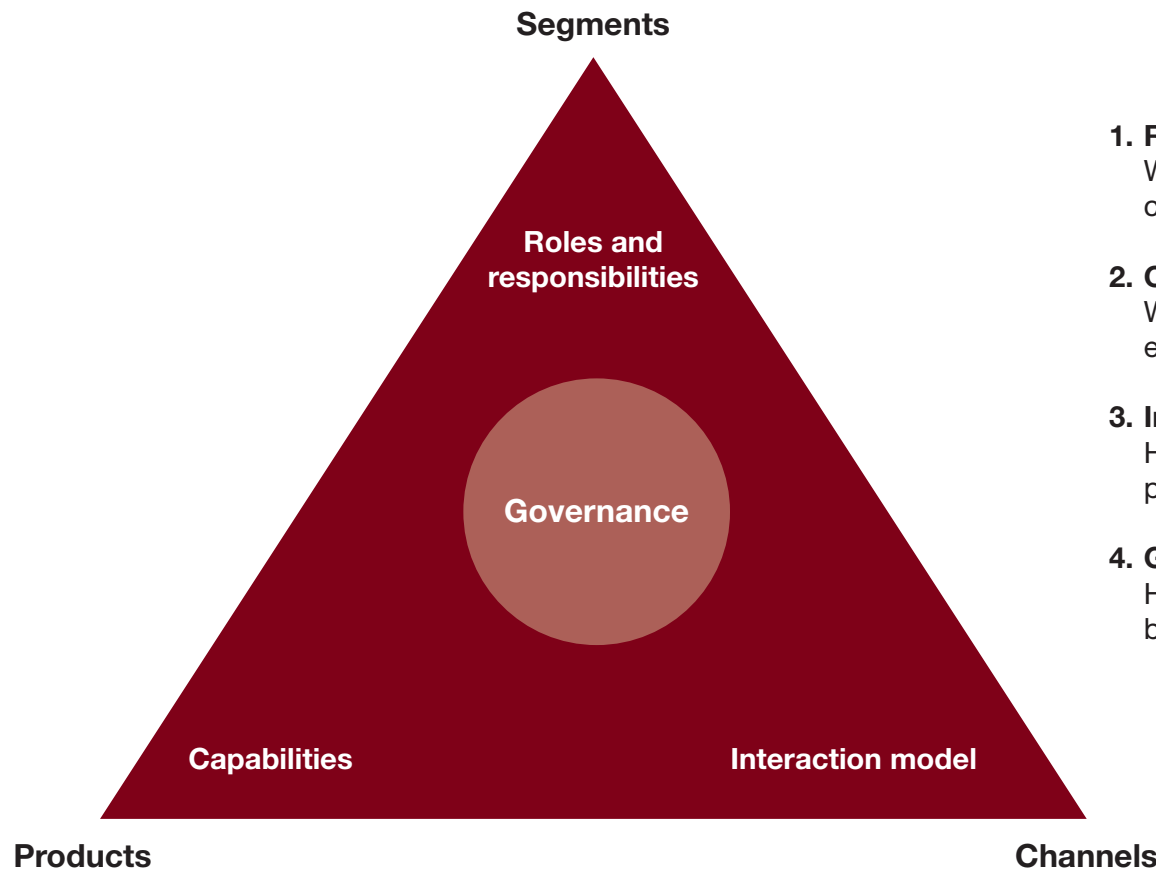
- No single accountability for defining the client experience and value proposition
- Capabilities duplicated across the organization resulting in excess cost and suboptimal experience
- Product silos driving acquisition independently, not holistically approaching customers
- No accountability for the end-to-end customer experience
- Channels aligned with products — not integrated into a single experience
- Legacy IT infrastructure not supporting a single customer view

Sample questions to address

- What is the role of segment vs. product vs. channel?
- Who owns client insights and the ultimate customer value proposition?
- What is the difference between a product and a business?
- How much local market tailoring of offerings is appropriate?
- How should segments, products, and channels work together?
- Who owns the P&L, revenue, and cost of manufacturing?
- What should be the performance metrics for segments, products, and channels?

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

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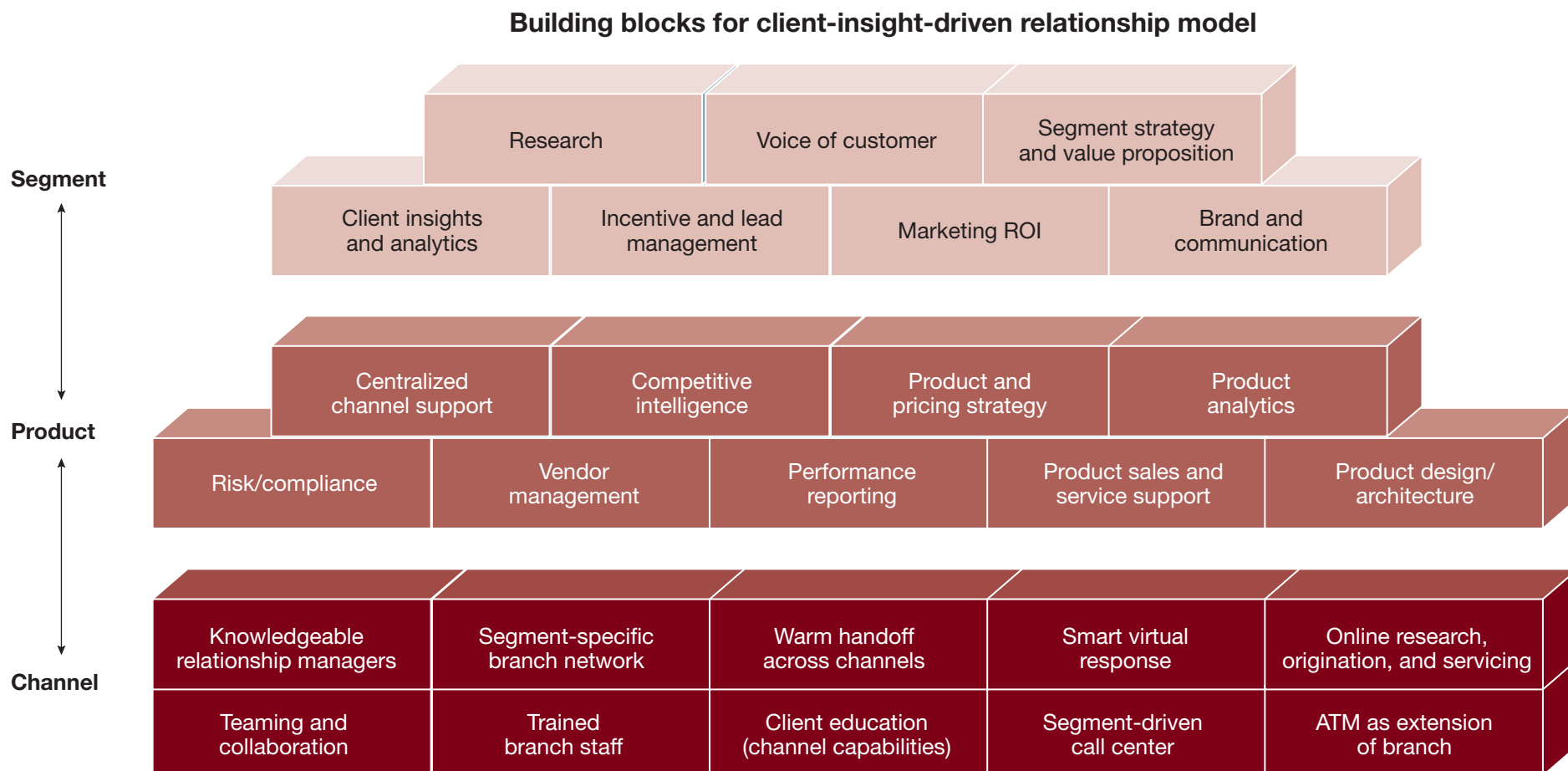
Segments must take on a lead role to set the value proposition, while products innovate and channels manage the experience

Example: roles and accountabilities

	Segment ←	Product	→ Channel
Role	<i>Develop client insights and relationships</i>	<i>Design, implement, and support products</i>	<i>Manage customer relationships</i>
Product development	<ul style="list-style-type: none"> – Develop segment strategy and programs – Set client value proposition 	<ul style="list-style-type: none"> – Generate ideas for new products and enhancements – Make product build-vs.-buy decisions and detail specifications 	<ul style="list-style-type: none"> – Collect local market insight and dynamics – Disseminate client point-of-sale feedback
Pricing	<ul style="list-style-type: none"> – Define pricing strategy (e.g., market positioning, relationship/exception pricing guidelines) 	<ul style="list-style-type: none"> – Manage tactical pricing (e.g., rate resets, fee repricing) – Gain understanding of competitive rates 	<ul style="list-style-type: none"> – Structure deals based on client relationship and willingness to pay – Manage exception pricing within guidelines
Sales and service	<ul style="list-style-type: none"> – Define client experience (e.g., targeted treatments, coverage model) 	<ul style="list-style-type: none"> – Support sales process (e.g., identification of opportunities) – Develop content for online training, field calls, sales guides 	<ul style="list-style-type: none"> – Deliver sales and service to clients – Ongoing relationship management
Risk	<ul style="list-style-type: none"> – Integrate risk management into overall segment strategy 	<ul style="list-style-type: none"> – Integrate risk impact and regulatory requirements into product and pricing strategy 	<ul style="list-style-type: none"> – Deliver sales and service within set risk management framework

Source: Strategy& analysis

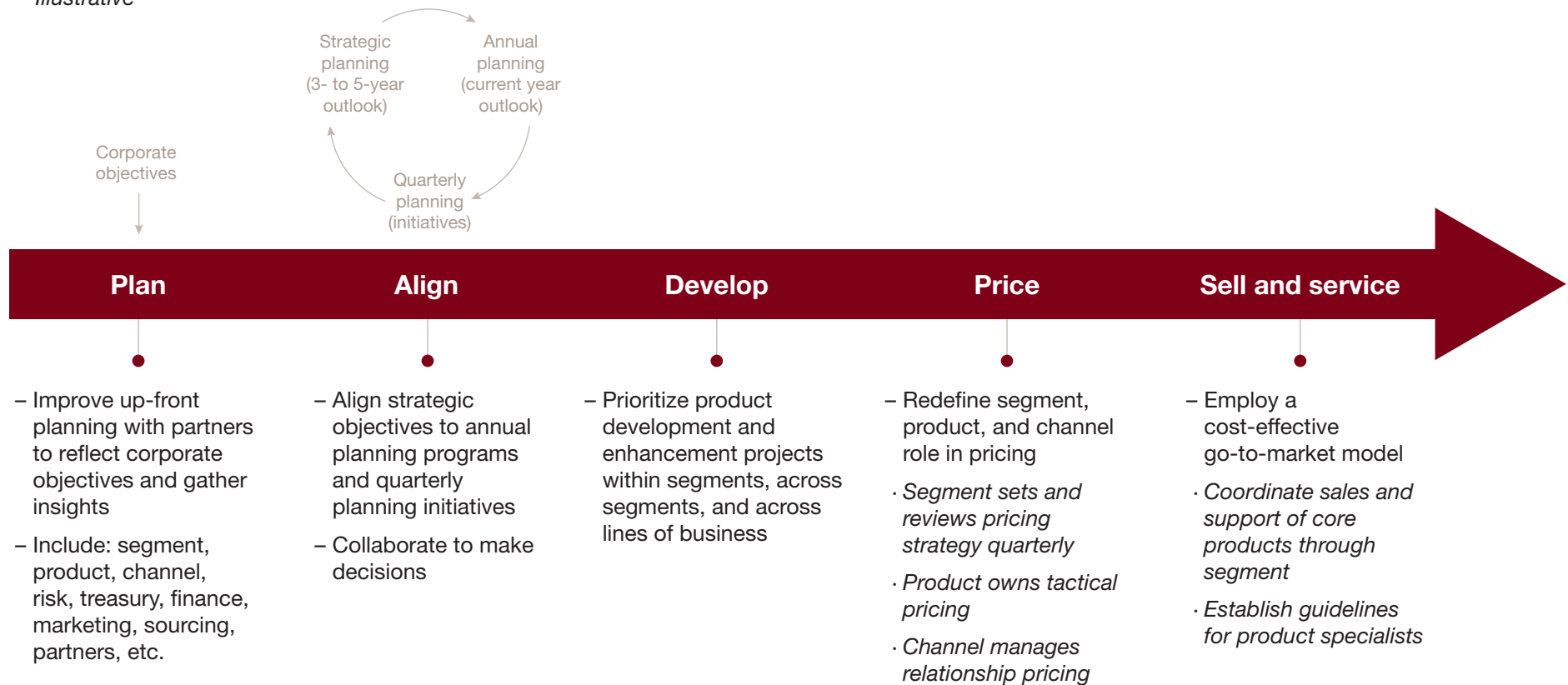
Capabilities must support roles — e.g., segments own client insights



Source: Strategy& analysis

The planning process is key to ensuring the appropriate level of collaboration is occurring across the organization

Illustrative

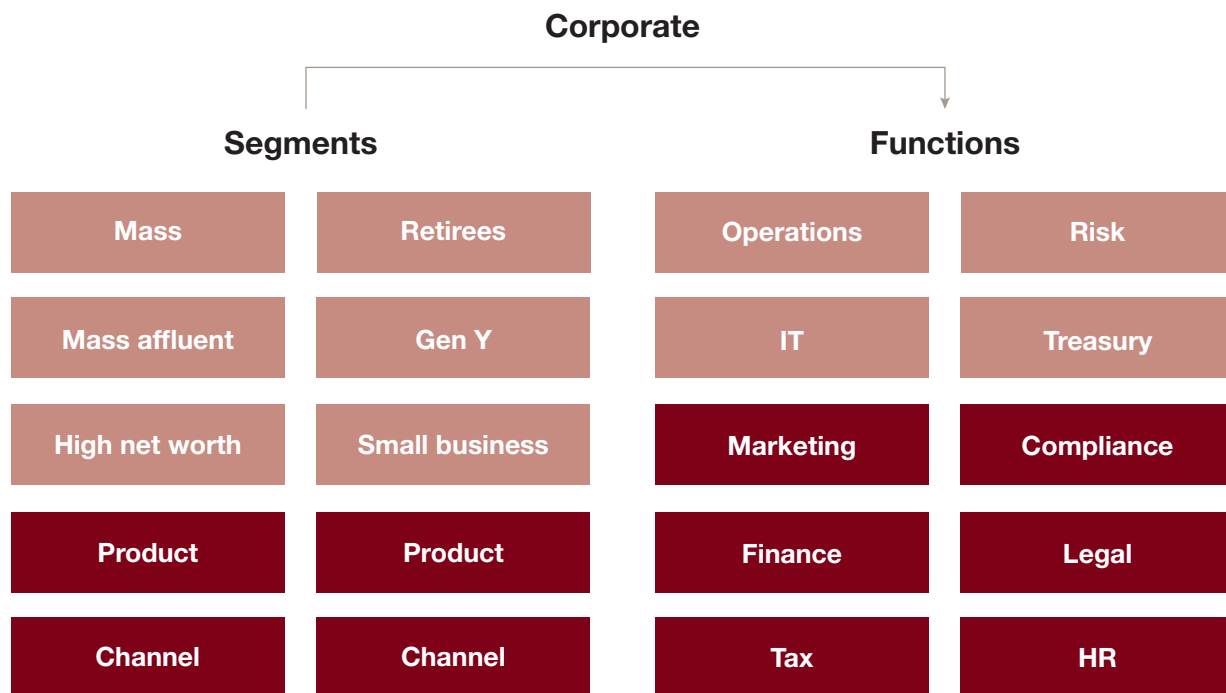


Source: Strategy& analysis

New interaction model

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

Performance management example



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

Review quarterly
Review semiannually

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

Source: Strategy& analysis

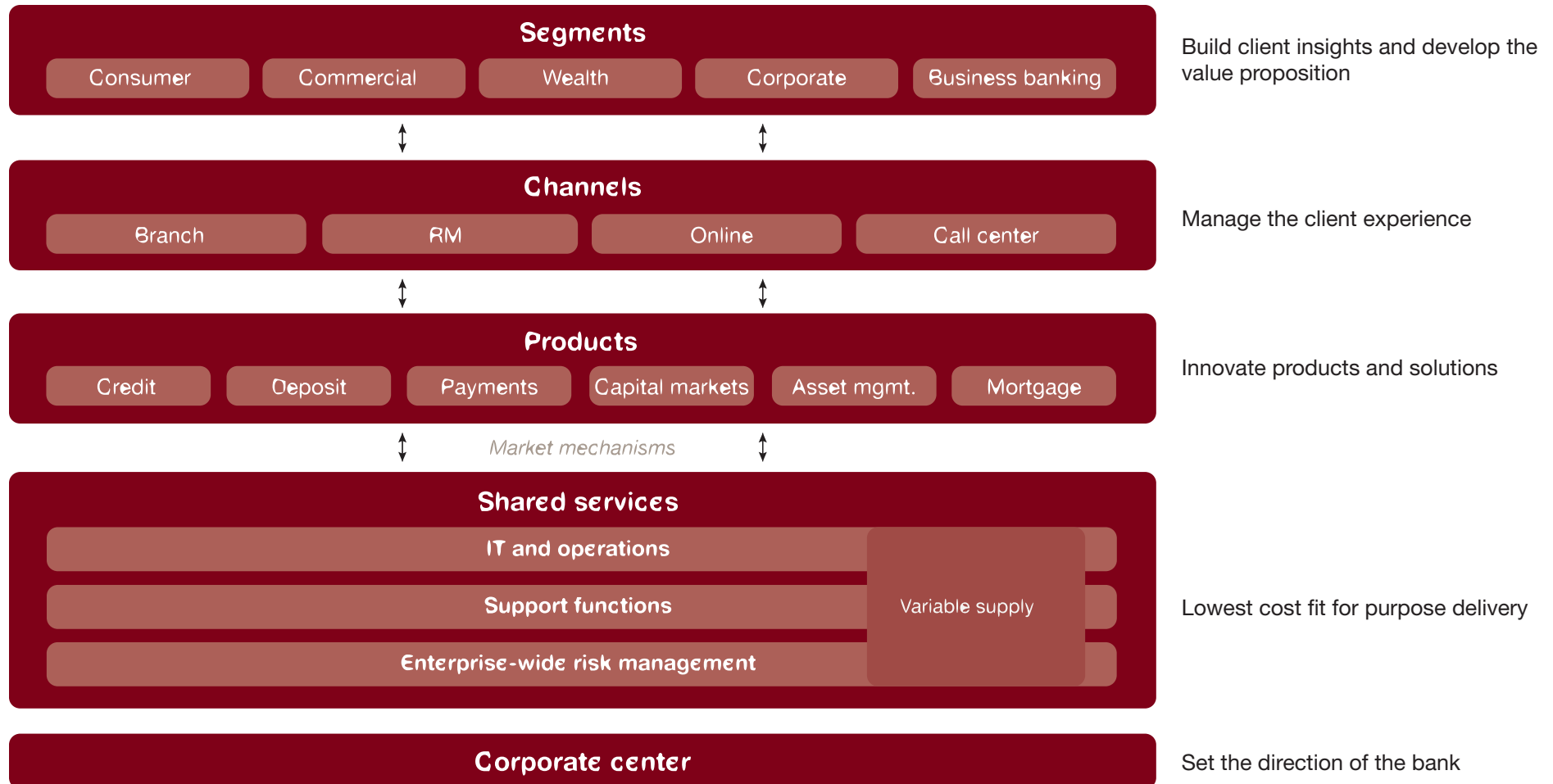
Finally, delivery platforms must be in place to successfully deliver on the promise

Enablers	Description
Operations	<ul style="list-style-type: none">– Streamline end-to-end processes by taking a customer-back view to meet customer needs– Create accountability and ownership for end-to-end processes to deliver desired customer experience– Build process utilities (e.g., for consumer lending) by leveraging common processes to build scale and expertise
Technology	<ul style="list-style-type: none">– Build customer management capabilities that enable relationship strategy (e.g., end-to-end workflow)– Simplify current application complexity to deliver superior customer experience– Create consistent data architecture to enable creation of client insights (e.g., 360-degree customer view)
Risk	<ul style="list-style-type: none">– Build robust risk management governance aligned to lines of business (LOBs)– Embed process to set risk appetite and respective risk tolerances/targets/limits on LOBs and also at the department and product level– Enhance capabilities to manage risk across the organization
Support functions	<ul style="list-style-type: none">– Create strong support and business partnership aligned to the new operating model– Build support function shared services to capture scale and expertise required to deliver services efficiently and effectively

Source: Strategy& analysis

The result is a much more flexible operating model that delivers a consultative client experience

Integrated relationship driven operating model



Source: Strategy& analysis

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