Achieving Organic Growth in Financial Services

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Although long at the forefront of the CEO agenda, achieving organic growth remains a challenge for many organizations.

Introduction

It is the key opportunity for most financial services companies today; the financial markets clearly reward institutions with a strong growth story. And while it can be pursued via several paths – including introducing new products and services, targeting new markets and entering new businesses – the optimization of the current business (existing clients and prospects) is in our opinion the main path on which to focus.
Significant growth can still be achieved by developing deeper, more relevant and more profitable relationships with customers.

There is no silver bullet. Delivering the right experience and achieving significant and sustained growth requires a clear strategic vision, an environment that drives passionate execution over time, orchestration of the most critical programs, as well as buy-in and commitment from employees. And no company can succeed in developing deeper, more profitable relationships without understanding how to impact the behavior of every customer-facing employee.

For each company, there is an optimal set of strategically integrated capabilities that will create the ability to achieve organic growth. Once those critical capabilities are identified, implementation becomes the name of the game.

For today's financial services companies, three goals are critical:

1. Understand the right relationship to pursue with each customer, the one that will create value for the bank as well as the customer
2. Make it easy for every customer to gravitate toward a relationship that is profitable to the bank
3. Make it easy for employees to make the right sales and service decisions, those that extend and maintain the right relationships, optimizing the customer experience

While these goals are fundamental, financial services companies have struggled to develop and orchestrate the capabilities to achieve them. Many efforts have been expensive and have not delivered the expected pay back.

To achieve sustained and profitable growth, integration of capabilities is the art, including:

- Full integration of customer data – including relationship potential – with contact points and decision points across all channels and lines of business, to share a full view of the customer
- Integration of actionable customer insight with an effective, empowered salesforce, to finally transform insight into profitable interactions
- Integration of all channels, to provide an environment in which each customer segment can be served in a satisfying and profitable way

Among today's financial services leaders, we see repeated examples of integration leading to profitable growth stories and resulting shareholder value (e.g. Royal Bank of Scotland, Wells Fargo).
This is quite important because markets in general have limited confidence in the financial sectors: the sector continues to suffer from high discounts, often on the order of 20% to 40%. More and more, integration distinguishes leaders from laggards.

Across critical customer-focused key performance indicators, organic growth initiatives can deliver significant results, visible to the market.

Rather than focusing on a specific consumer segment, Wells Fargo has chosen to be the financial services provider for the mass market. Integrating an aggressive approach to new channel development, an innovative product strategy and an intense focus on salesforce effectiveness, Wells Fargo has achieved remarkable growth even through tough market conditions. Aligned with the company's laser focus on cross-sell goals (present target is eight products per customer), this integration enables them to create deeper relationships with customers and to create more value for shareholders.

Bankinter - a leading bank in the Spanish market and a global leader in terms of innovative, profitable approaches to managing customers – has focused on aligning their people throughout the distribution network and enabling them to leverage innovative technology and customer insight to create value.
Bankinter has achieved tight integration across channels, resulting in a rewarding customer experience and allowing the bank to tightly link insight to interaction – to optimize the company's ability to drive profitable sales in every channel.
The integrated information allows the bank to closely monitor - and continuously adjust - sales activities. As a result, cross-sell rates are astounding: an average of 5.7 products per customer.
Simultaneously, they have been able to increase the number of customers (doubling transaction volume over the last three years) and to significantly increase value per customer.

Lessons from the leaders prove that execution is the name of the game in achieving organic growth while maximizing return on investments.

Impact of Organic Growth Programs on Key Performance Indicators

Revenue Growth	Leaders are above 15%
Cross-Selling	Wells Fargo from 3 to 4+ in 4 years, Bankinter achieved 5.7
Share-of-Wallet	Up to 60%
Products Sold per Salesperson per Day	Leaders have achieved 4.7
Redemption Rate	Can increase from 2% to 15-20%, depending on target
Acquisition Rate	10-12%, among mature banks
Retention Rate	Leaders have reached 98%
Campaign ROI	Can be increased by 30%, often significantly more
Salesforce Productivity	Can be increased by 30% in 2 years
Cost-to-Serve	Can be reduced by 10-15%
Claims Handling Cost	Can be reduced by 20%
Clients with a Single Product	Can be reduced to under 10%

Companies must:

- Clarify strategic priorities (e.g. increasing effectiveness and profitability of cross-selling)
- Identify the key performance indicators that will chart progress and clearly commit management and employees (e.g. cross-sell ratio, profit/customer)
- Design the selected programs that will enable their companies to grow, leveraging investments of the past
- Develop/manage specific capabilities that must be sharpened to generate growth

From Accenture's point-of-view, the critical programs are:

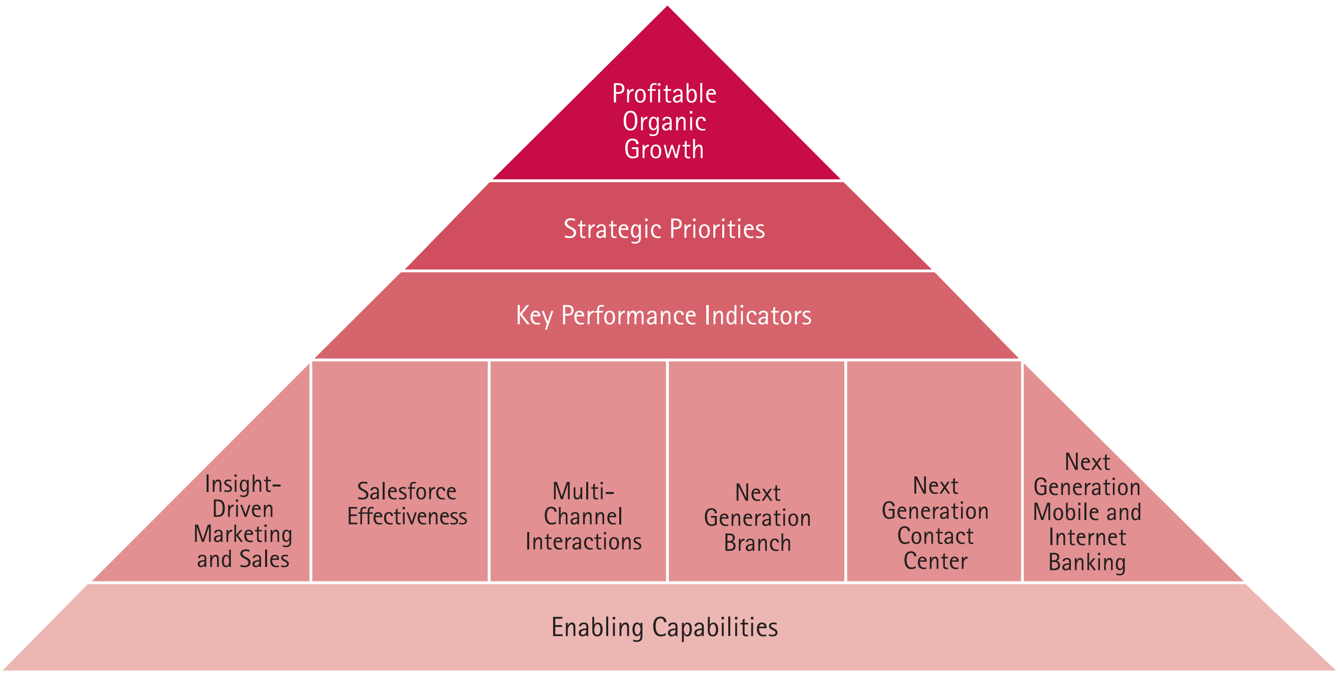
- Insight-Driven Marketing and Sales
- Salesforce Effectiveness
- Multi-Channel Interactions
- Next Generation Branch
- Next Generation Contact Center
- Next Generation Mobile and Internet Banking

Within each of these programs are a set of capabilities, a subset of which – the right subset - should be honed and integrated to create differentiation and drive growth.

Once the path is chosen, execution becomes the critical issue -- with executive support and staged initiatives both key to successful implementation. The path to growth must be driven by the CEO and must have strong support from the Board of Directors. Business leads, technology leads and the human resources director must all aggressively drive the effort.

Once aligned, leading companies launch major change through waves of development, carefully engineered to obtain both fast and sustained results. The waves of change should include quick wins and pilot programs that build early results and create commitment as well as the long-term initiatives that create the required infrastructure for sustained growth.

The Organic Growth Framework



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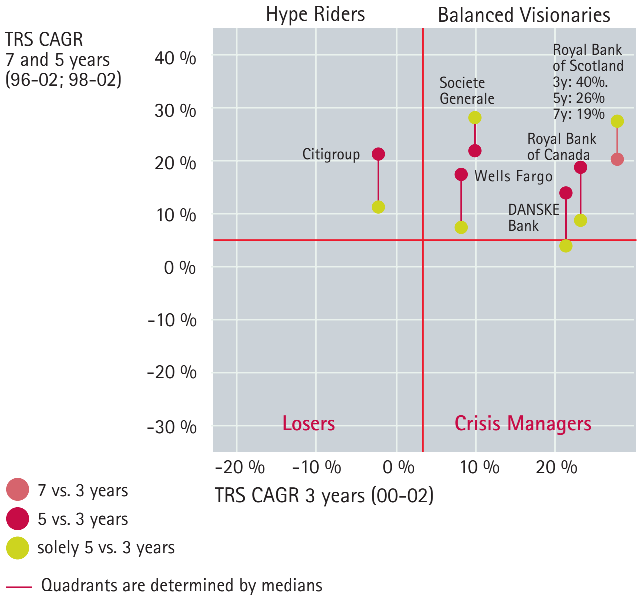
The Organic Growth Opportunity

Accenture has undertaken a study of the world's top-performing companies. We have found that winning banks - those that sustain above-average earnings and total return to shareholders – are those that have focused on growth, even during uncertain times. This consistent and effective focus on profitable growth is rewarded by the markets (Exhibit 1): leaders, including Royal Bank of Scotland, Wells Fargo, Societé Generale and Citigroup, are consistently growing earnings at a double–digit rate.

These winners have outperformed the market through the spectrum of market conditions and have actually expanded their lead during the toughest times.

Exhibit 1 - Select High Performance Banks



Source: Accenture Analysis
(TRS = Total Return to Shareholders)
(CAGR = Compound Annual Growth Rate)

The Recent History

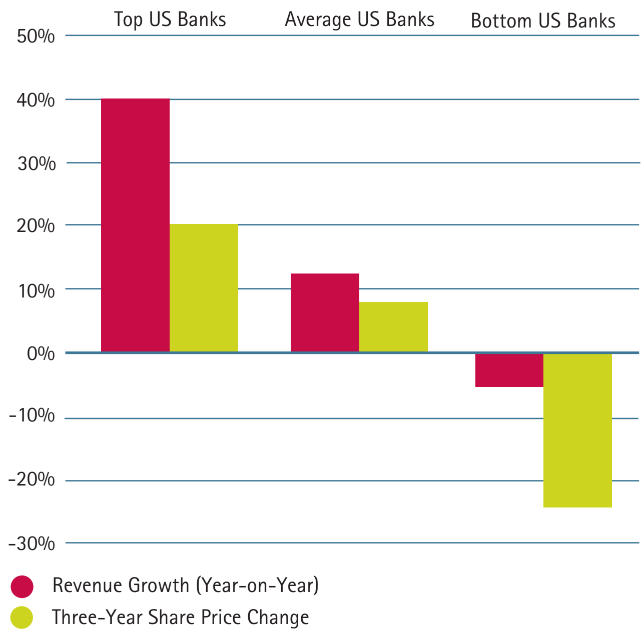
The stock market rewards consistent and credible growth stories: growth, not cost reduction, is key to creating superior and sustainable shareholder value. Companies that focus on rational, profitable growth - even during tough economic conditions – deliver superior financial performance, including share price gains. Total return to shareholders is highly correlated with revenue growth (Exhibit 2).

The economic downturn that started in 2000 created a difficult environment for banking players. Earnings dropped dramatically. Revenue growth slowed significantly versus the two decades since 1980. Globally, bank share prices dropped precipitously.

Faced with a bleak outlook, many top executives' immediate reaction was to focus on cost-cutting and to postpone investments. Unfortunately, while cost-cutting strategies often deliver short-term rewards, resource reduction strategies can destroy long-term value and leave companies poorly positioned to scale fast in the future.

Accenture studied the five year performance of twenty organizations that focused on cost-cutting starting in 1996-1997. Average total return to shareholders (TRS) for

Exhibit 2 - Correlation between Revenue Growth and Stock Price Increase



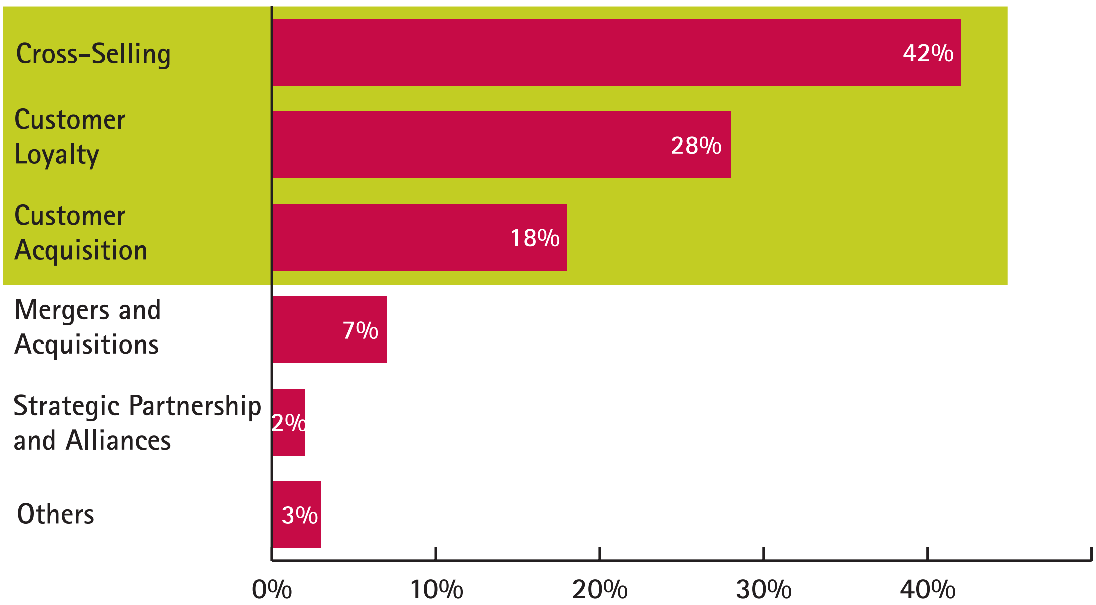
these cross-industry companies lagged the market: S&P returned 90% by end of timeframe, contrasted with the 37% return of the twenty cost-cutters. Forty percent of the companies showed actual losses. Furthermore, recent studies show that of companies focused on cost-cutting in the 1990s, less than 20% were able to get back onto a profitable growth track.

While the stock market punished these cost-cutters, it has rewarded banks that have consistently focused on revenue growth. And now, industry leaders hold the view that organic expansion, rather than mergers and acquisitions, is the preferred method of driving revenue growth (Exhibit 3).

Opportunities for non-organic growth have thinned. Merger and acquisition (M&A) deal activity in 2003, measured by number of deals, was one third of 2001's activity. The most active regions for M&A, North America and Europe, have both experienced significant increases in deal premiums. These increases suggest a growing scarcity of attractive acquisition targets.

Achieving swift and profitable organic growth will be the key opportunity – and the critical challenge - of the next five years.

Exhibit 3 - Which Strategy Areas Have You Defined for Your Development?



Source: Accenture Survey of Bank CEO's

Alternative Paths to Organic Growth

There are several approaches that can be pursued, individually or in combination, to drive organic growth (Exhibit 4). Opportunities vary by geography and by each organization's current performance level and market positioning.

In order to pursue an organic growth strategy, banks may pursue a portfolio of growth options.

Optimization of Core Business

This would include priorities such as integration of actionable customer insight with an effective, empowered salesforce; expansion and integration of all channels to create a compelling customer experience; and a focus on cross-selling and retention through a "growth engine" that integrates required capabilities.

Expansion of Market

In these cases, the organization targets a new customer base via augmented products and services or via geographic expansion. Typically, organic growth strategies refer to extension of coverage within current geographical markets or adjacent areas. Expansion to entirely new geographies typically implies acquisition.

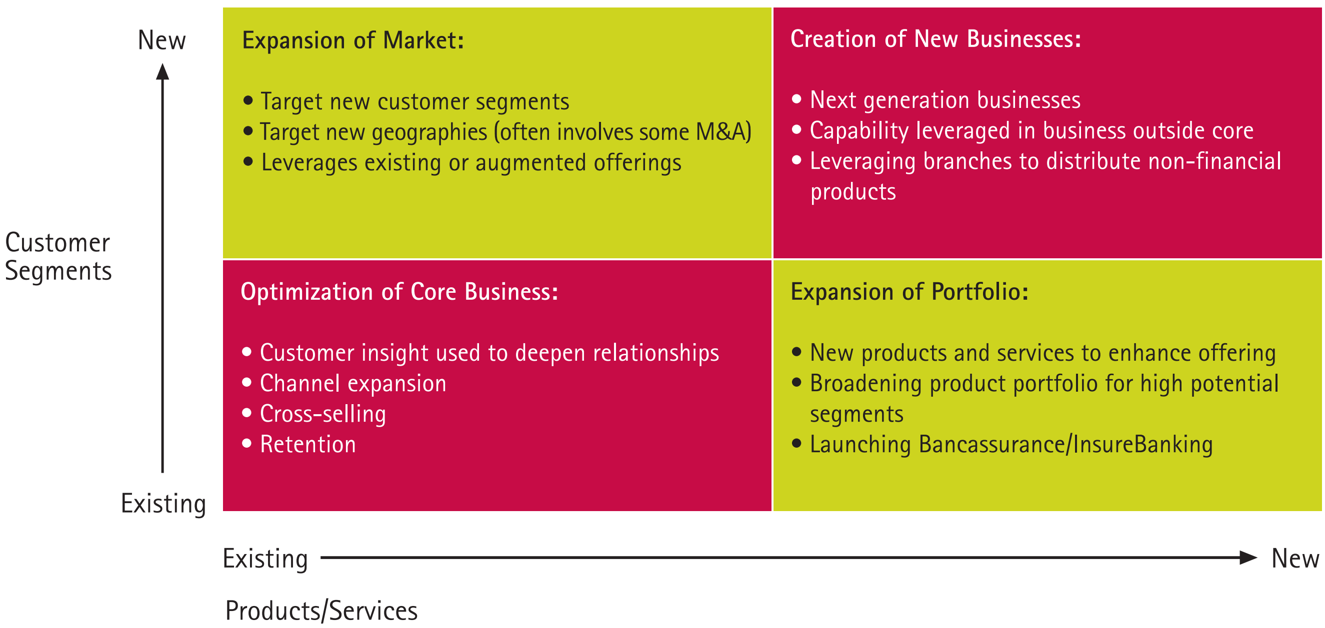
Expansion of Portfolio

Priorities may include developing new products and services to enhance the offering, broadening the product portfolio for high potential segments. Product innovation is definitely important and must leverage insight capabilities. Leaders are able to constantly stimulate demand by zeroing in on opportunities to create and market high value products and services. We expect interesting opportunities, especially in the space of risk management products for small businesses and mid-sized corporations, as well as consumer credit and mortgage businesses in select geographies.

Creation of New Businesses

So far, initiatives have been limited. There were some attempts in the eEconomy with B2B and B2C platforms, and efforts to leverage branches to distribute non-financial products. Success has also been limited. However, this is an option to be explored: innovative financial services companies may leverage available capabilities and assets in new and profitable ways.
All of these options can be part of an organic growth strategy. The optimization of the current business is, however, the most likely route to growth for most financial services companies. Further, it is key to the development of critical capabilities required to pursue other options. Therefore, in this paper we will focus on optimization of the core business.

Exhibit 4 – Growth Options



The Accenture Point-of-View on Organic Growth: Integrating Capabilities to Optimize the Current Business

To create significant shareholder value, financial services companies must have a clear vision and a well-articulated business model. Having the right strategy and isolated capabilities will not drive value: execution is critical. To build an organic growth strategy and set the basis for a differentiated customer experience that creates long-term value for the customer and for the bank, a set of key capabilities must be identified, sharpened and tightly integrated in what we call the "growth engine".

In order to drive profitable organic growth, institutions must first clarify strategic priorities, considering market opportunities, past investments and current resources (Refer to Exhibit 2). They must identify key performance indicators that will chart progress toward these strategic priorities, and communicate those KPIs to all who must contribute to the journey. Executives must then determine and develop the groups of capabilities that will enable their companies to grow.

Each institution needs to select its own set of programs. In our framework we consider the six most critical:

- Insight-Driven Marketing and Sales
- Salesforce Effectiveness
- Multi-Channel Interactions
- Next Generation Branch
- Next Generation Contact Center
- Next Generation Mobile and Internet Banking

Within the chosen set of programs, each institution must identify the specific capabilities that should be sharpened and integrated to more effectively generate growth (Exhibit 5). These include business capabilities but also enabling capabilities in the HR and IT spaces that are critical to success.

Strategic Priorities Driving Growth and Key Performance Indicators

As previously discussed, strategic priorities depend on the institution's context. They typically include:

- Targeting specific client segments with specific offerings
- Selecting the most appropriate distribution model
- Differentiating marketing, sales and service treatments by customer segments, based on potential value
- Developing an integrated, profitable customer experience across channels and lines of business

Exhibit 5 - Organic Growth Programs & Supporting Capabilities

Insight-Driven Marketing and Sales	Salesforce Effectiveness	Multi-Channel Interactions	Next Generation Branch	Next Generation Contact Center	Next Generation Mobile and Internet Banking
Deep Customer Insight	Salesforce Sizing	Effective Network Management	Cross-Channel Integration	Intelligent Routing & Scripting	Internte Banking Architectures
Adaptive Segmentation	Behavior Definition: Learning & Development Excellence	Customer Service Model	Integrated CRM Engine	Sales & Customer Interaction Model	Mobile Banking & Investment Services
Offering Excellence	Attractive Compensation & Rewards	Physical & Virtual Channel Excellence	Accountable Workforce	Salesforce Automation	Online & Offline Access
	Strong Organization & Sales Culture	Transaction Migration	Operational Excellence	CTI & Web-Telephony Integration	Easy-to-use SMS
			Enhanced Customer Experience	Alternative Sourcing	WAP Push for Mobile Links
					Service Innovation

- Increasing effectiveness and profitability of cross-selling
- Maximizing profitable customer acquisition
- Optimizing cost-to-serve by migrating the right transactions to electronic channels

The most critical decision refers to the choice of the distribution model (Exhibit 6).

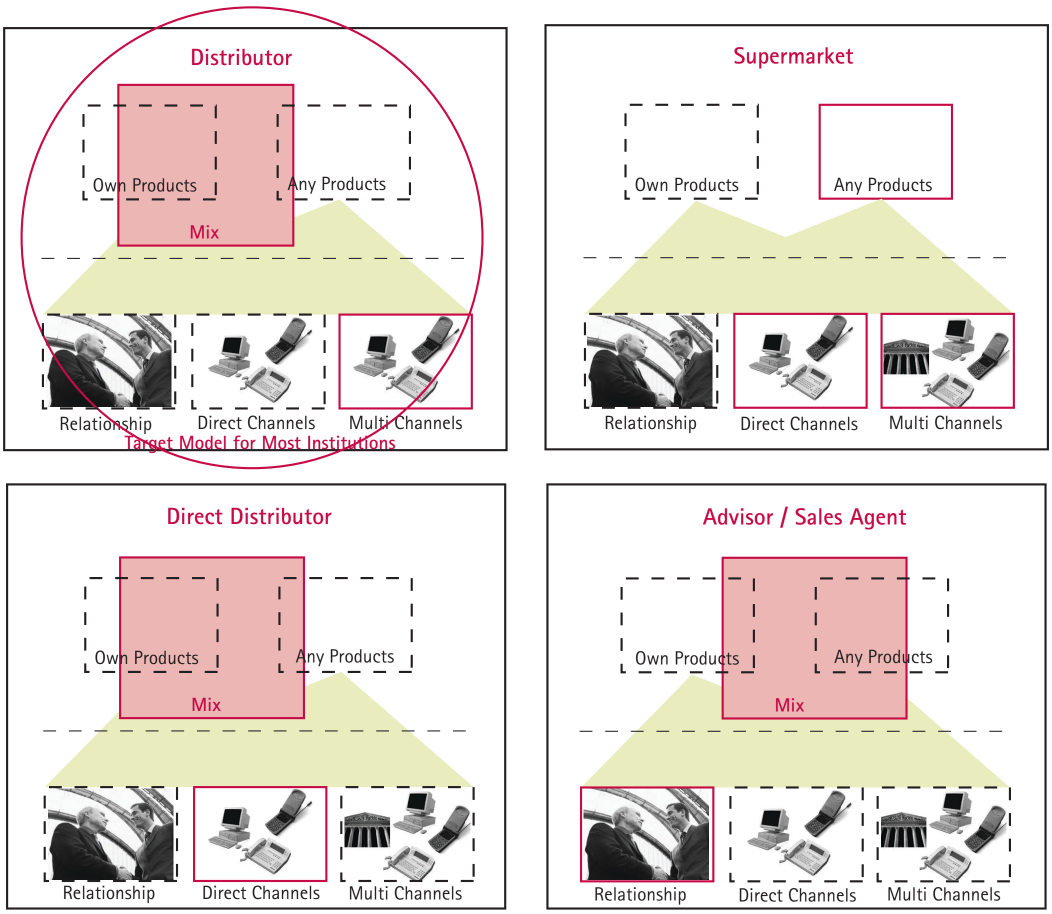
The distribution models are:
Distributors, which offer their customers a range of products through a range of channels. No channel predominates, but Distributors make an effort to migrate customers to channel usage patterns that will optimize long-term value. Distributors sell a mix of their own products and those of other companies, with a sourcing emphasis that varies by company: winners excel at providing channel-adjusted product offerings and using innovative pricing models to motivate customers to use less cost-intensive channels.

A relevant example is Wells Fargo, the most extensive banking franchise in the United States. Over the last four years, its revenue has grown at a compound annual growth rate (CAGR) in excess of 10%. Wells Fargo has differentiated from the competition through:

- Product and service model excellence: products are not offered one at a time, but as a convenient package. "Wells Fargo Packs" combine deposit, loan and investment products into easy-to-buy, easy-to-sell bundles.
- Service emphasis: the differentiator is not only the product, but also the way the product is delivered -- service is the product. The company has a strong and proud sales and service culture, targeting both sales and customer retention targets.
- Salesforce management: the company has implemented a measurement and reward system that balances sales targets with customer retention.

Direct Distributors, which focus on direct channels (Internet, ATM, call center and IVR) and on migrating most of the customers to exclusively direct relationships. They usually sell a mix of products but tend to focus on products developed in-house. A relevant example close to this model (though it also leverages a branch network) is Bankinter (Spain), which has grown at a CAGR exceeding 17% over the last ten years.
Supermarkets, which usually use a multi-channel distribution network with a strong focus on the direct channel capabilities to ensure convenience and price-competitive offerings for their customers. They focus on providing the best solution at the best price for their client, accordingly sourcing products from third party providers. A relevant example is Bradford and Bingley (UK).

Exhibit 6 - Distribution Models



Advisor/Sales Agent companies, which focus on the relationship between the client and the advisors or sales agents, though the predominance of the face-to-face relationship does not preclude the use of other channels. In terms of product sourcing, Advisor and Sales Agent companies cover the spectrum from designing and developing all of their products internally to relying on an open architecture with products from third parties only. A relevant example is AWD (Germany).

Across strategies, clear definition and communication of the relevant key performance indicators (KPIs) – especially when used to create an environment of healthy competition - is essential to driving results. Measurable, actionable targets enable firms to focus management and employee attention on achieving growth. Carefully selected and combined, KPIs must align activities to increase both customer value and company profit (see Exhibit 1, where best practices have been highlighted). Clearly defined KPIs are also quite important for facilitating effective communication with financial analysts.

When aligned to the strategic priority, these metrics help to ensure that each investment truly moves the company toward its goals. When consistently communicated, measured and tied to individual objectives, these metrics can create a company-wide team focused on achieving strategic priorities.

As an example, Wells Fargo clearly communicates its goal of increasing the cross-sell ratio from an already high four products per customer to an unprecedented eight products per customer. Not just executives, but every customer-facing employee is aware of and measured against this goal. The annual report and the media repeatedly quote the CEO communicating the primary message: Cross-Sell! A visit to a Wells Fargo branch will confirm that this message has filtered down to the tellers. During the course of a sale, branch personnel actively probe for additional product needs, and their cross-sell efforts are supported by product bundles designed around customer segments.

Major Programs

Once these strategic priorities and associated KPIs have been established, a number of programs or initiatives may be started in order to create the required capabilities. In our framework, we consider six key programs that enable financial services companies to grow.

Strategic priorities determine which programs are most relevant and which capabilities should be highlighted for development. Orchestrated properly, the programs enable companies to reach the critical objectives of:

- Delivering critical insights to the point of contact, and providing each employee – as well as virtual channels - with the ability to use those insights to close profitable sales and provide the right level of service

- Integrating channels - and highlighting key channel capabilities as appropriate - to make it easy for top customers to fulfill all their financial needs in one place, as well as making it easy for less valuable customers to migrate to a profitable relationship

The programs are:

- Insight-Driven Marketing and Sales
- Salesforce Effectiveness
- Multi-Channel Interactions
- Next Generation Branch
- Next Generation Contact Center
- Next Generation Mobile and Internet Banking

Efforts may be differentiated by line of business (Exhibit 7), considering each business line's peculiarities.

Keeping a constant eye on the actions of leading companies - the best practices relevant to each program - can illuminate the path to growth and create the stimulus for developing a capability strategy.

Insight-Driven Marketing and Sales

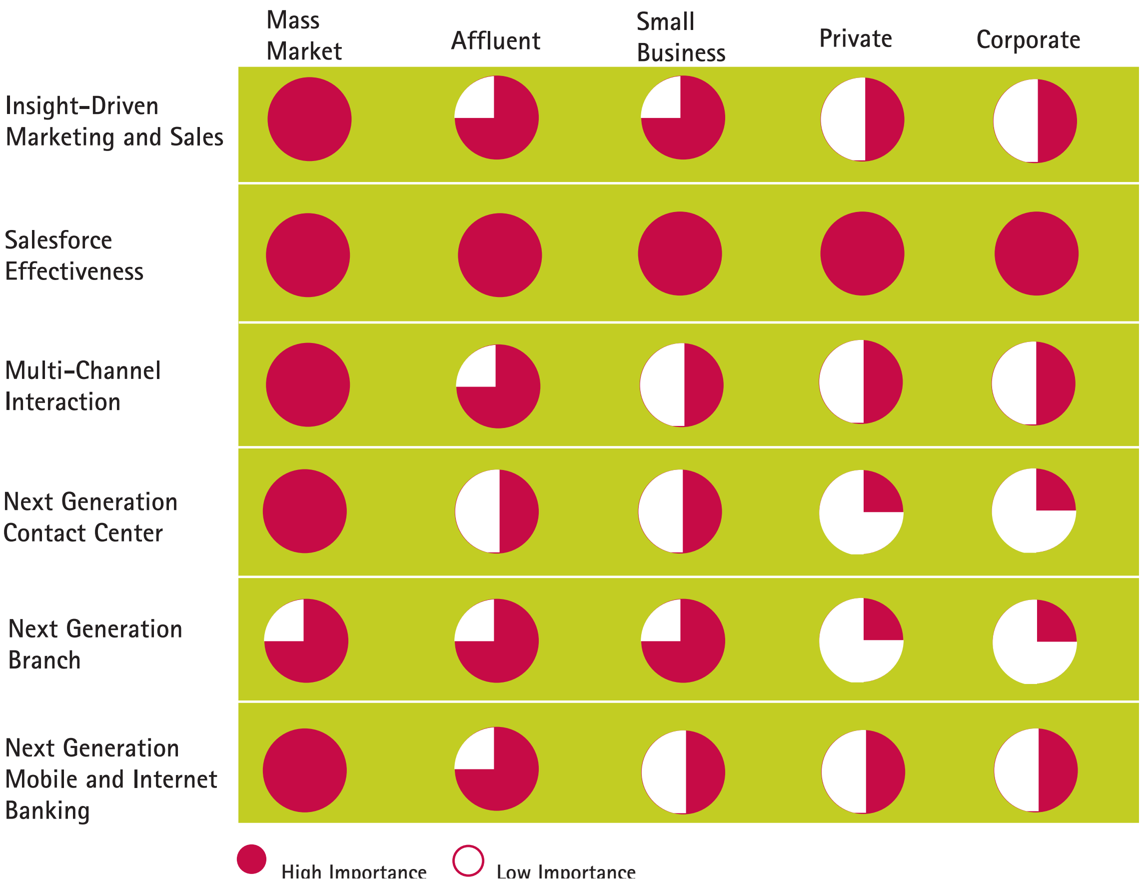
Key customer insights enable financial services companies to meaningfully customize offerings to customers while rationally allocating resources. In addition to driving a differentiated contact strategy, customer insight should shape product and pricing strategy to deliver value to the customers and to the bottom line.

Despite investing in analytical capabilities, many banks have struggled to identify and create the critical customer insights. A well-edited, well-constructed set of insights can provide a solid understanding of individuals, and the resulting decision framework can drive effective and efficient marketing, sales and service targeting. The key insights include:

- Attrition risk
- Current value
- Share of wallet
- Potential value
- Best next product
- Loyalty
- Interaction preferences (i.e. channel, timing, etc.)

Bankinter, a leading Spanish bank, leverages the critical insights very effectively. Their results demonstrate that – properly utilized – insights can drive stellar financial performance. Bankinter has managed to drive

Exhibit 7 - Possible Priorities by Line of Business (Client Macro Segment)



simultaneous and sustained growth in number of customers, products per customer and value per customer. Their cross-sell ratio is 5.7 versus a national average of less than three, and they are a market leader in organic growth: 17% CAGR over the last ten years.

Bankinter's impressive results are due to the company's commitment over the years to focusing on people and ensuring they can effectively utilize technologies. Leveraging the power of customer insight, everyone in the bank understands the profile of customers in each segment and the implications for sales and service. All enjoy the support of innovative tools (e.g. the customer dashboard) and have lived the benefits of more effective selling. The entire bank shares the business vision, and the business model is fully mobilized.

Bankinter focuses on the retail customer segment and provides these customers with appropriate products and services through a seamless blend of channels, all of which are powered by the bank's state-of-the-art customer insight. More than 60% of transactions are performed through remote channels; 40% are via the Internet. But while Bankinter has been extremely focused and effective in insight development, analytical prowess alone has not driven the results. Profitable growth is sustained because the company uses the resulting customer insight to drive interactions, delivering actionable insights to customer-facing employees and individualizing automated interactions.

Winning companies will be those that create "Marketing Factories", specialized entities driving the Growth Engine (Exhibit 8). Such factories can be fully internal, or activities and processes can be outsourced to accelerate capability development and bottom-line benefits.

Salesforce Effectiveness

Effective human performance is essential for business success. The spectacular and well-documented customer relationship management (CRM) disappointments of the last decade can largely be explained by a failure to ensure that an organization's people are ready and able to take advantage of insight and technology. Leaders not only deliver actionable insights to the employees' desktops, they provide those employees with the supporting tools, training and incentives to use those insights to drive profitable customer interactions.

The salesforce of the future must focus not only on enhancing revenues per client but also on the long-term tenure of clients. Leading companies align learning strategies and operational execution with business strategies and performance objectives: their salesforces must be qualified to understand the financial needs and

Exhibit 8 – Marketing Factory and Sample Assets

1. Propensity Scoring for Sales Campaigns
   - Propensity Scores
   - Retention/Churn Analysis
   - Campaign Targeting
   - Selection and Extraction of Target Lists
2. Segmentation, Profiling and Customer Valuations
   - Adaptive Segmentation
   - Profiling
   - Profitability Analysis
   - Needs Analysis
   - Customer Lifetime Value
3. Segment-Product-Channel Optimization
   - Optimal Segment-Product-Channel Mix
   - Prioritization of Sales Rules
4. Next Product, Event Triggers and Sales Alerts
   - Next Product Selection
   - Event Trigger Management
   - Sales Alert Management
5. Information Support for Satisfaction and Loyalty Programs
   - Loyalty Program Management Support
   - Automated Customer Satisfaction Monitoring
   - Potential Value Indicators
   - Enhancement via External Data
   - Data Quality Management
   - Data Collection and Management
6. Sales Dashboard
   - Performance Dashboard
   - Sales Reporting

preferences of their customers. Corporate culture is renewed through clear objectives, clear performance management and clear communication programs. Competence is developed through regular and rigorous training that blends different approaches, such as performance simulation, virtual classes, expert coaching and classroom training. Professionalism is further enhanced through insight-enabled supporting tools that make it easier to make the right sales and service decisions.

Prudential UK, for example, has a typically complex set of offerings. The company needed to make it easier for employees to sell these products and provide service to the customers. They focused on creating a learning environment that blends traditional and new approaches: classroom-based instructor-led training, web-based performance simulation, and a knowledge management solution for on-the-job support. Employees are now better able to control their own development and access the information they need when they need it. Further, they can learn to sell within a safe environment, which reduces the negative impact of new offerings and of new employees on the customer experience. Within four months, the company *significantly increased sales conversions and value per sale.*

Motivation is key to the effectiveness of a salesforce and can only be maintained through clear and rational goal setting and appropriate incentives and compensation. An effective compensation and rewards scheme can be the backbone of successful performance management.

Multi-Channel Interactions

Institutions have realized (in part thanks to the ability to create and utilize customer insights) that it is critical to provide an integrated customer experience. Customers have lost patience with institutions that fail to recognize their full relationship. Disjointed experiences – across channels or lines of business – are no longer tolerated.

Although the specifics of channel usage vary by geography and by customer segment, customers around the world are increasingly seeking a multi-channel experience. Our Report on the European Retail Banking Industry projects that European banking customers' usage of virtual channels will continue to grow dramatically. Innovative channels, however, are not replacing physical channels: the branch is still the most used channel (excluding ATMs, which are used mainly to carry out basic transactions) and will likely remain the predominant banking channel. More and more, retail banking customers will use a multi-channel approach, exploiting all the channels available to communicate, transact and purchase.

This translates into a risk for companies that fail to integrate and an opportunity for those that achieve integration and deliver an effective multi-channel experience. While Bankinter's overall 5.7 cross-sell ratios are impressive, their cross-sell ratios among multi-channel customers are astounding: customers that use branches and online banking and the telephone bank average 7.5 accounts each. These multi-channel customers are the bank's most profitable and by far the most loyal (Exhibits 9, 10).

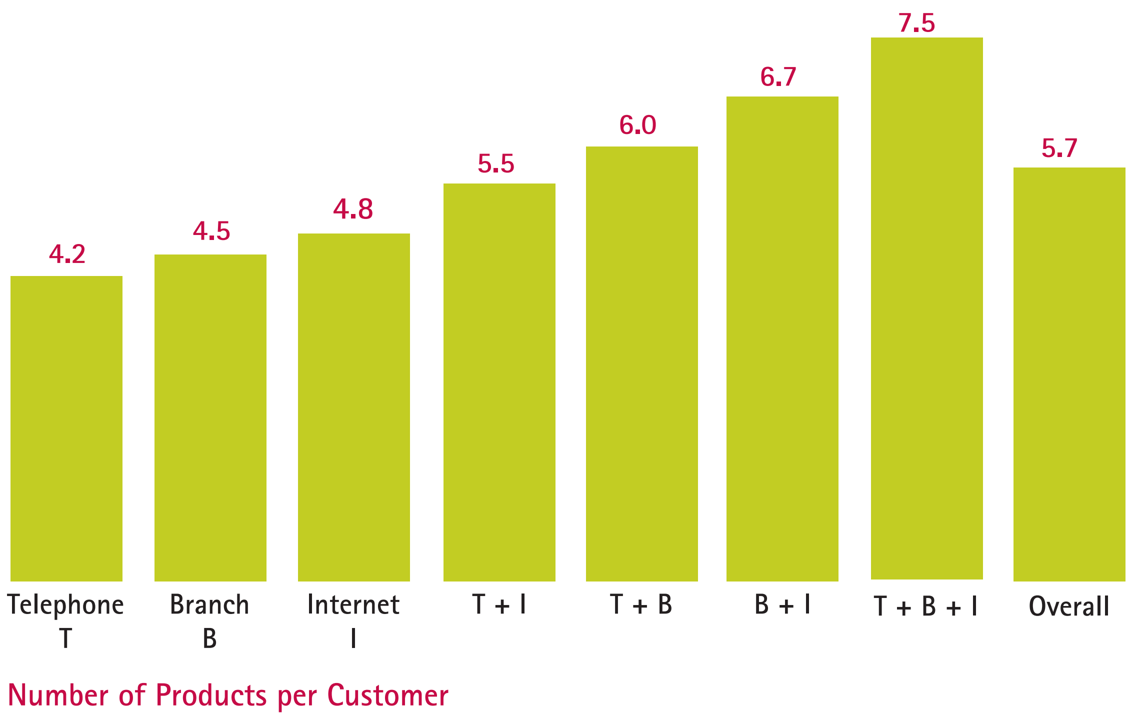
Key to effective multi-channel management is transferring low-value transactions away from resource-intensive channels. Simpler interactions of customers with low sales potential can be shifted to self-service or to lower-cost centralized contact centers. In addition to a portion of customer calls, much processing can be moved to specialized centers of excellence that can complete the work more efficiently. Such efforts to optimize cost-to-serve across customer segments not only reduce costs but also increase sales effectiveness, as sales staff has more time to spend on high-potential customer interactions.

Today's leaders distinguish themselves through their optimized, integrated view of processes and IT. They operate with standardized and repetitive marketing, sales and service processes, with a high degree of automation and clear end-to-end process responsibilities. A few banks have already achieved this desired level of integration (e.g. National Australia Bank), and a trend in this direction can already be seen. Leaders accelerate integration by focusing on the business issues, including:

- Establishing clear accountabilities and central ownership, eliminating channel silos
- Enabling effective customer-focused financial controls, supported by the ability to monitor customer profitability across channels and by a clear profit allocation mechanism
- Linking a significant portion of compensation to performance
- Instituting business-driven resource allocation (including Economic Value Analysis)

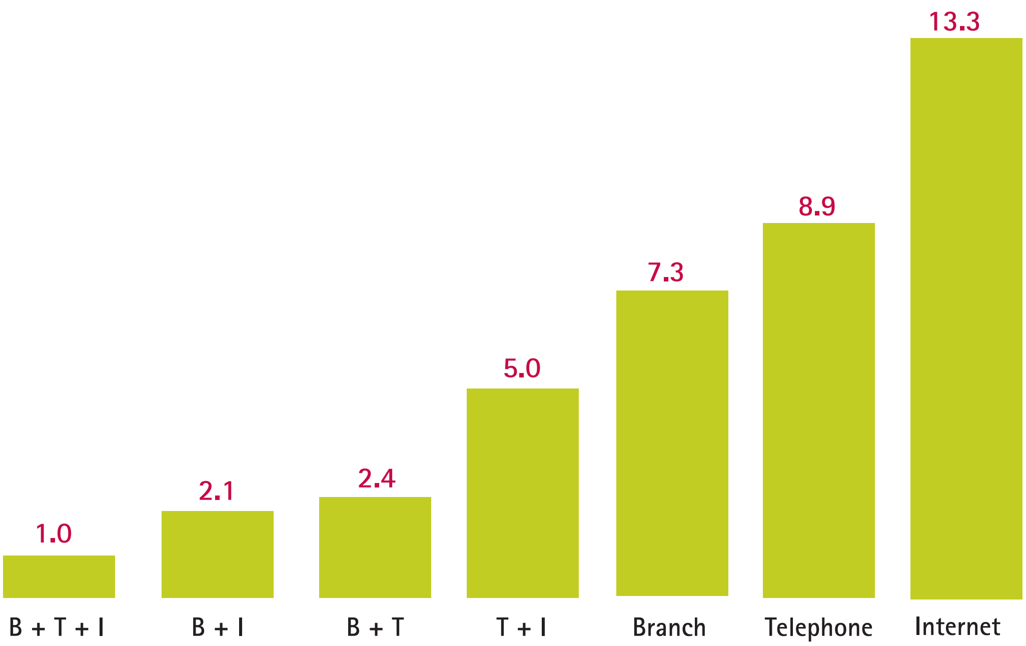
Effective multi-channel management need not wait for optimal channel integration. Over the last few years, Wells Fargo has grown by providing market-leading offerings via emerging channels, even before the capabilities existed to integrate all channels. Wells Fargo's online banking offerings were so compelling and so timely that the bank expanded its brand reach by assembling a new – and geographically dispersed – set of customers. This new virtual customer base, paired with the bank's consistent focus on cross-selling, provided a platform for significant

Exhibit 9 - Cross-Sell Ratios by Channel Usage



Source: Bakinter Dec-2002

Exhibit 10 – Loyalty by Channel Usage



Number of Times More Likely to Leave

Source: Bakinter Dec-2002

growth. The company has delivered double-digit revenue growth even through 2001, 2002 and 2003.

The winners of tomorrow will be those organizations that manage the customer experience effectively, providing the integrated multi-channel experience customers demand, but doing so in a way that is profitable across the customer base. Once development and integration is sufficient to enable a satisfying customer experience even within the low-cost channels, companies can begin to shift customer behavior strategically. Using such tools as differentiated pricing and targeted messaging, firms can encourage profitable interaction patterns and focus sales resources on high-potential segments without sacrificing the satisfaction of other customer groups.

Next Generation Branch

The multi-channel approach to accessing financial services continues to gain momentum, but the branch is alive and well at the center of most distribution networks. While interactions across channels increasingly influence purchase decisions, our Next Generation Branch study – which incorporated interviews with a number of top bank executives – has confirmed that by far most sales still happen in the branch. Globally, we are seeing a renewed focus on the branch, a focus fueled by customer sentiment, economics and continuous advances in branch concepts and technology.

Although usage differs by geography, the challenges are global: branch networks are too costly and too ineffective. To change the way they address customers, a complete rethinking is required. As these networks become more and more expensive, banks are compelled to focus branch resources on sales to high-value customers. CEOs are challenged to tackle technology renewal and integration strategically.

As a core component of the multi-channel interaction model, branches must be focused on creating and exploiting the highest-value opportunities with the highest-potential customers. To achieve this, companies must integrate the channels, provide insight into customers and related opportunities, and enable the branch workforce to take advantage of that insight. These efforts must result in a more satisfying experience for the customer and more profitable sales for the company. The Next Generation Branch must also impact the cost-to-serve and change the overall cost-income ratio of the bank.

All branch reinvigoration starts with the same crucial element: the target customer experience. The key to success is the ability to distill the key components of that experience and to translate them into the capabilities required to deliver it. This allows companies to develop appropriate branch solutions that, in Accenture's view, typically fall across three strategic waves with increasing degrees of innovation:

- **Refresh the core:** Refresh the core operating model to provide crucial capability and flexibility and infuse a stronger sales focus and culture

- **Create Differentiation:** Turbo-charge salesforce and relationship management capabilities, employ alternate branch concepts, and optimize the overall network topology. We foresee the emergence of three clearly defined branch models to meet different needs and requirements of customers: Financial Stores, Financial Boutiques and Transactional Centers. The decision to build a branch network that encompasses alternate concepts will be driven by its underlying economic potential, essentially matching customer acceptance and impact with profitability potential.

- **Radically Reinvent:** Personalize customer experiences using deep insight and real-time solutions, creating a real-time branch sales and support engine by employing high-tech solutions to optimize interactions

Banks can realize their full branch potential across the three strategic waves by following a branch reinvigoration journey, utilizing emerging and evolving assets, resources and approaches. Leaders have already taken significant steps.

Bank of Queensland is delivering market-leading growth by intelligently – and innovatively - managing the branch network. They have expanded the physical network through *a refined model of owner-managed branch franchising*. Remuneration is via profit sharing rather than commissions. Managers carry start-up costs and determine recruiting, opening hours and local marketing initiatives.

They have the option to sell branches afterwards for a capital gain. Throughout, the corporate head-office tightly controls risk policies, branding and training. Now Australia's fastest-growing bank, Bank of Queensland posted a record profit increase: a 30% CAGR from 1998 through 2002.

Other innovative companies are experimenting with a range of new concepts. **Charles Schwab** is among the financial institutions that have created branches for specific customer segments, with investor centers targeted to customer groups that prefer more investment advice than their most active traders. These targeted branches have a strong sales focus, enhanced by the presence of specialized personnel. In co-branded financial shops, banks are partnering with non-financial companies to attract customers by integrating what have historically been separate experiences. **Washington Mutual** has also gained a lot of attention, and new customers, through their Occasio branches. Some banks are using virtual branches, self-service branches and even franchised branches. Outsourced branches may follow quickly.

Next Generation Contact Center

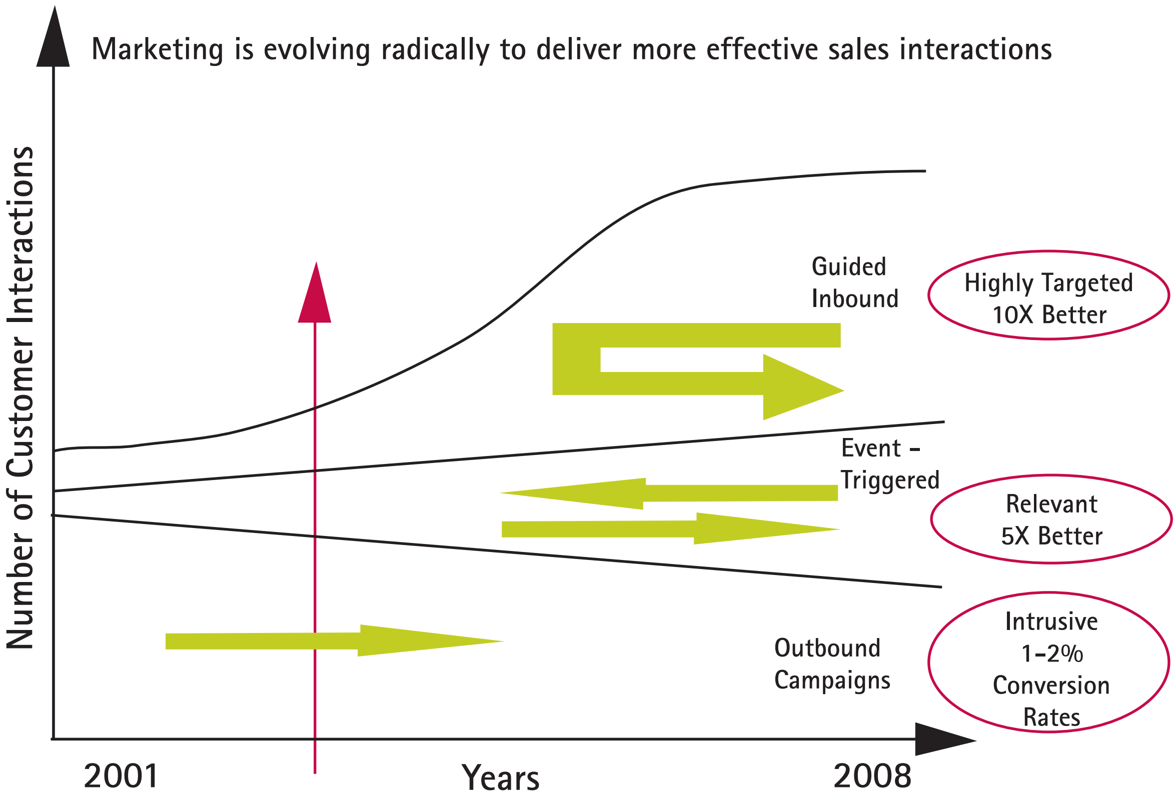
The contact center is increasingly important to organic growth. Over the past few years, most companies have focused on reducing cost and increasing efficiency in the contact centers. Few have focused on creating a contact center-based sales machine. With branch-based sales efforts expensive for most customers, and regulation making outbound telemarketing less feasible (now even in the United States with the Do-Not-Call legislation), more and more organizations must focus the contact center on turning service interactions into sales opportunities. For companies focusing on growth via the contact center the potential is enormous: sales efforts within inbound interactions are significantly more effective than outbound efforts (Exhibit 11).

Leaders have transformed their call center operations in several important ways. They have implemented customer segmentation with corresponding call center organizational design and call routing capability to ensure that the right customers receive the right service from the right agents. Within the traditionally service-only call centers, they have established an intelligent sales capability to leverage the upside potential of every customer interaction. Additionally, they have improved customers' web-based access and transaction capabilities, and backed up the new customer-facing capabilities with new processes and systems for handling workflow between the call centers and the back-office operations teams.

In addition to the immediate impact on the bank's ability to create and up-sell opportunities, such efforts can substantially reduce the number of calls handled through self-service. This means contact center representatives have even more time to focus on sales. And not least, the customer experience is significantly more satisfying.

Contact center outsourcing can also significantly improve financial services firms' ability to focus resources on profitable sales to top potential customers. Sourcing can be differentiated not just by type of transaction but also by customer segment. The simplest transactions of the customers with the lowest sales potential can be routed to the least expensive contact center resources, while high-value customers and prospects can be mapped to the most highly skilled representatives.

Exhibit 11 - The Importance of Managing Inbound Sales Interactions



Source: Gartner

Next Generation Mobile and Internet Banking

It is certainly news to no one that the Internet has transformed financial services over the last decade or so. The changes to both customer-facing and back-end capabilities and efficiencies would be hard to overestimate. Early movers like Wells Fargo are still reaping the benefits of expanded customer bases lured to the convenience of online access to their financial services. But many of those early movers created Internet silos, without meaningful integration with existing channels or organization structure. As a result, customer experiences have not been as satisfying as they should be, and organizations have not been able to capitalize on the sales-effectiveness and cost-efficiency that fully integrated online capabilities can provide.

Now, with a new generation of web banking solutions emerging - process driven, standard based, highly configurable and flexible, and based on a low-cost operating model - banks are starting to tackle replacement of their costly, inflexible, poorly scaleable first generation solutions. As online solutions evolve, organizations can reap the potential of a multi-channel customer experience that is both cost-effective to banks and rewarding to customers.

Accenture believes that mobile technology will also have a profound effect on financial services. Mobilizing financial services will allow companies to:

- Offer clearly differentiated products and services
- Provide customers with convenient and secure access to their accounts from any location
- Deliver real-time, context-specific information and offers at point of need

Mobile banking consistently scores in the top three of services customers say they are willing to use with their mobile phones, according to Nokia market research. According to Meridea market analysis, 98% of German Internet banking customers want account information delivered to their mobile phone and are willing to pay over fifty cents for this and other informational and transactional services (Exhibit 12).

Early adopters in Europe and Asia are seizing the opportunity to generate subscription revenues, reduce operating expenses (by displacing cost from more expensive channels) and improve the satisfaction of their most profitable customers. One in eight of recently acquired First Direct (UK) customers cited the mobile service as their reason for joining. In 2003, the bank signed up over 300,000 customers for its SMS-based services. Over 20% of mobile participants in an SMS-based pilot at a leading global bank "would definitely buy another product" as a direct result of their satisfying mobile banking experience. Societé Generale (France) signed up 400,000 customers at ten cents a message for an alerting service and broke even within one year. Consumer SMS habits - helped by significant improvements in mobile pricing, bandwidth, and device usability - have paved the way for Western European and Asian banks to win over 10,000,000 active mobile banking customers. Analysts project 35% compound annual growth in the number of active mobile banking subscribers over the next three years (Celent research, 2003). These successes demonstrate that all preconditions to banks offering SMS mobile banking services have now been met. The problems of initial mobile banking offerings (c. 2000/2001) based on WAP 1.0 technology - expensive and slow due to poor bandwidth, poor usability due to complex interactions, low band and low resolution black-and-white screens, poor interoperability between carriers and networks – are overcome.

There are two distinct phases of opportunity:

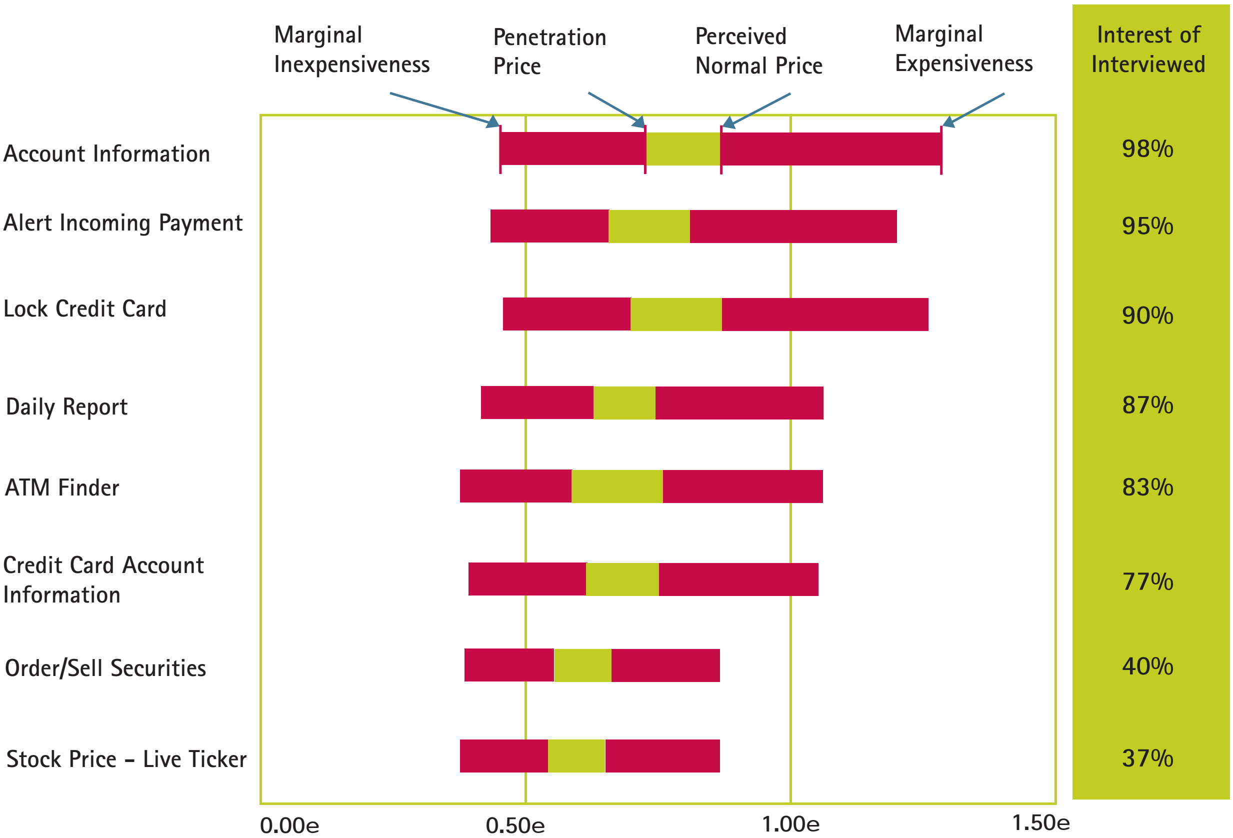
- Now, via SMS which is widely available and has increasing customer acceptance
- In the future, via sophisticated smart phones, downloadable applications and always-on networks

As shown in Exhibit 13, we expect continued improvements in bandwidth and growing consumer experience with browsing and smart client applications on phones, as well as price reductions, to help banks develop their mobile services and expand their active customer bases. One of the leaders is Dexia (Belgium), having launched GPRS-based transactional banking services in March 2004 with local mobile carrier Proximus. Previously, the bank used mobile services - including viewing of checking and debit account balances and recent transactions, and direct top-up or pre-paid mobile voice accounts - to grow its more than 1,000,000 checking accounts at Axion, its youth-branded bank.

We recommend that banks begin now to exploit mobility in transforming their sales and distribution capabilities:

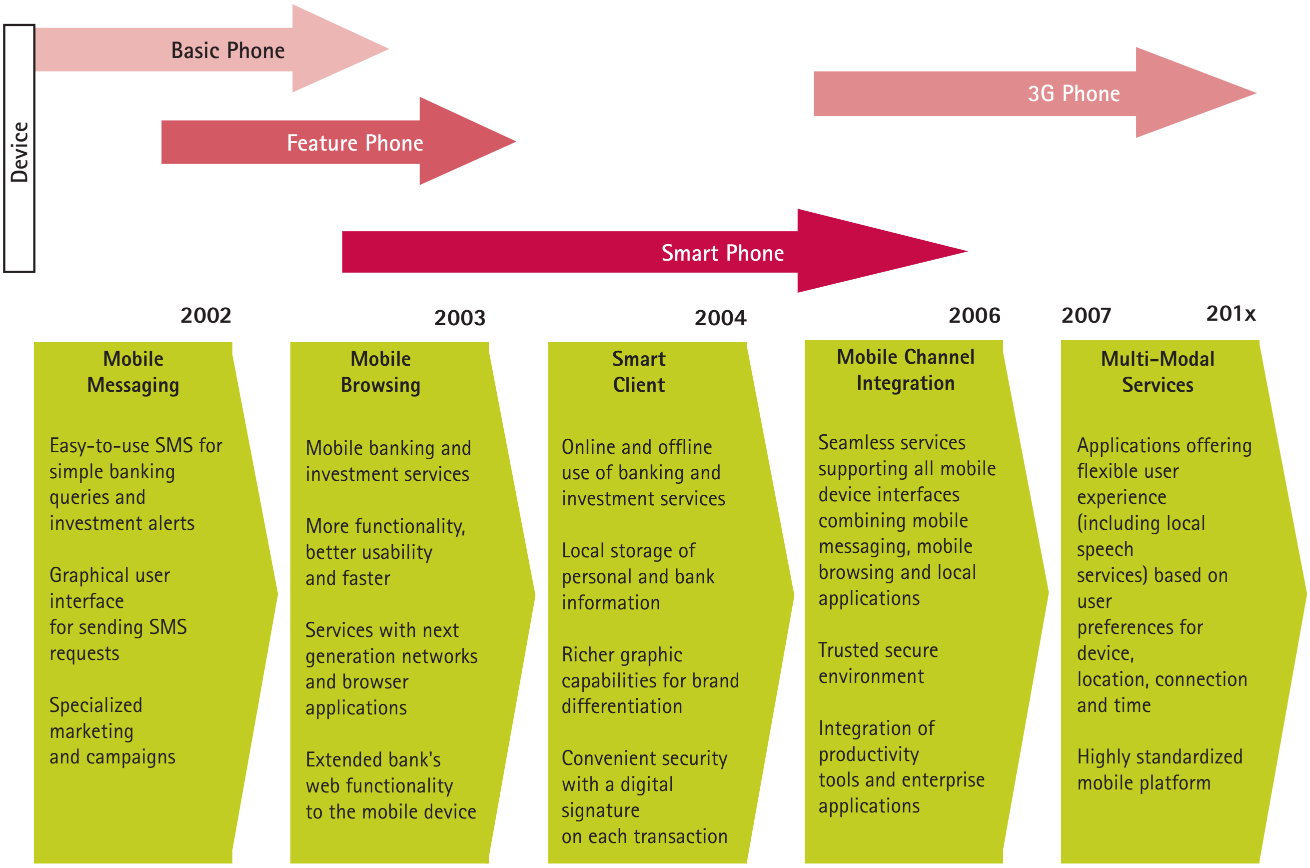
- Focus on true "bank in your pocket" needs of individual customer segments. SMS push (alerts) and pull services are two valuable propositions
- Leverage opportunities for mobile to enhance other channels, including ATM and branch location services
- Charge for these services; customers are accustomed to paying for mobile services
- Pilot with target segments, such as one-person businesses and students, with high cash-flow management needs and staff who act as evangelists for new services
- Be creative in learning customers' mobile numbers

Exhibit 12 - Consumer Interest in Mobile Services



Source: Meridea market research 3Q 2003

Exhibit 13 – Mobile Banking Development Phases



Leaders have shown that mobile banking increases customer satisfaction by proactively helping customers manage their financial needs. At a leading European bank for example, when customers are making a large credit card transaction, they may be offered a consumer loan by SMS and need only give a yes-or-no SMS response to approve. Similarly, another bank automatically offers select customers abroad 30-day travel insurance by SMS. The bank uses its deep understanding of customer needs and behaviors to maximize customer profitability, directing transactions to this low cost channel and offering customers personalized services at the point and moment of need.

Keys to successful implementation

To pursue organic growth objectives, execution is the name of the game. This demands articulated programs, multidisciplinary in nature, in which different capabilities must be developed at the same time. Evolution of capabilities is quite a challenge, and integration is even tougher. But that integration is absolutely crucial. To successfully implement an Organic Growth strategy that will deliver significant and lasting results, it is critical to:

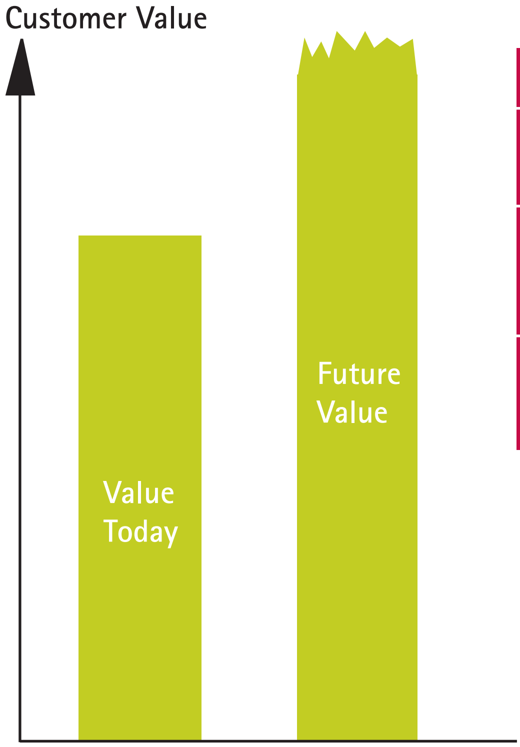
- Adopt a holistic approach
- Secure the appropriate levels of support
- Utilize a staged development strategy
- Create a learning environment

Our experience proves that implementing Organic Growth programs in this fashion can translate into positive impact on revenues, profits and shareholder value even in the short term.

Holistic Approach

While it makes sense to think about capability development within one or more of several separate programs, it is important to retain a holistic view of the Organic Growth implementation. The programs should be managed under a single umbrella. Tight integration – across channels, information sources, business functions and lines of business – is essential.

Exhibit 14 – Mobile Banking Value Proposition



Customer Proposition	Examples
Extend Complement other channels	• Fraud alerts • ATM locator services
Push Proactive servicing and marketing at point of need	• Overdraw alerts • Consumer loan offers
Pull Convenience of anywhere anytime services	• Mini-statements • Account transfers

Source: Accenture analysis

For example, while the development of customer insight capabilities is a significant effort in itself, the overall Organic Growth programs – whether in the branch, in the contact center or within virtual channels – should be planned and managed with an understanding of how insight can be used to improve marketing, sales and service results. The same insights should drive efforts across channels in a differentiated but consistent way.
While key channels will each require significant capability development, those capabilities and the resulting customer experiences must be integrated. In particular, we must emphasize the importance of a holistic approach via:

- Integration of customer data to provide an accurate view of the customer – including relationship potential – to contact points and decision points across all channels and all lines of business
- Integration of actionable customer insight with an effective and empowered salesforce, to finally transform insight into profitable interactions
- Integration of all channels, to provide an environment in which all customer segments can be served in a satisfying and profitable way

Appropriate Levels of Support

Achieving organic growth requires substantial change across the organization. This change requires consistent support that starts at the highest levels and filters down through executives across the company. The Organic Growth strategy must be fully endorsed by the Board of Directors as well as the CEO. Their support must be communicated across the lines of business and across business functions, as well as to industry analysts.

Organic Growth strategies and programs must be led by a team of executives sharing a common vision and focused on the integration agenda. Successful implementation demands tight alignment among business, technology and human resources leads. Without the support of all of these areas significant change can not be accomplished. Many of the well-documented CRM failures of the past were plagued by inadequate alignment between business and technology as well as the omission of human performance concerns. Gaining the support – and participation – of all of these teams is critical to success.

Staged Development Strategy

While it is important for each institution to identify the areas of development critical to drive growth, it is also important to effectively stage the required implementation.

Organizations should develop those capabilities core to the chosen model with an approach similar to running a "marathon of sprints", focusing on results, speed, flexibility and simplicity. These efforts should leverage past investments to the greatest extent possible, while focusing on the most critical capabilities and initially working on the most critical branches or other key interaction points.

Leading companies have adopted a mix of approaches based on structured experimentation and on waves of development to obtain both fast and sustained results. Components of a program (Exhibit 15) should include:

- Quick wins, to achieve short-term benefits and build buy-in (e.g. customer retention programs in critical at-risk segments)
- Pilot programs, to test new approaches and new solutions and to allow for refinements before rolling out
- Infrastructural initiatives, to provide capabilities essential to creating and sustaining value over the long-term (e.g. data warehousing to enable an integrated view of the customer)

Learning Environment

It is important to develop a mentality of continuous improvement, a learning environment in which managers (line-of-business leaders, sales and marketing directors, IT and HR heads, etc.) test solutions, refine them, and roll out the best. New offerings, new messages, new customer treatments and new processes should constantly be evaluated via a controlled test-and-learn methodology, measuring the impact on customer experience and on company profit. In addition to such controlled testing, organizations should constantly learn from their customers, their employees and industry leaders. Systematic approaches to harvesting these knowledge sources can provide ongoing refinements to the Organic Growth strategy and to development plans.

Exhibit 15 – Types of Organic Growth Initiatives

Initiative Types	Examples	Impacts
Quick Wins	• "At-Risk Client" Campaigns • Initiatives for Low-Performing Branches • Prospecting Campaigns	• Obtain Immediate Benefits • Postpone Impact on Infrastructure
Pilot Programs	• Targeted Branch Initiatives to Migrate Customers to Direct Channels • Sales Labs for Targeted Segments, to Increase the Number of Contacts and Number of Sales	• Send Quick Signals to the Market • Develop Internal Capabilities
Infrastructure Initiatives	• Diversification of Branch Models • Development/Strengthening of Branch Models • Launch of Satisfaction and Loyalty Programs • Core Customer Insight and Customer Interaction Infrastructure	• Create the Infrastructure Required to Drive Significant Growth • Sustain Impact and Benefits Over the Long-Term

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