A White Paper from Where Eagles Soar Inc.

Rightsizing Distribution Investments: Yesterday, Today and Tomorrow

By Pat Palmer, Principal Leader

Banks and other financial institutions have, in most countries, been the business backbone for secure, sustainable economic prosperity for governments, private sector commerce and individuals' financial well-being. The traditional evolutionary delivery of services, through local units between 10:00 a.m. and 3:00 p.m., five days a week started to undergo a series of rapid changes in the 1980's as the dominance of branches was eroded by customer-centric preferences. Historical control of street corner visibility would give way to a convenience culture as defined by consumers and businesses. Retail banking would grow, plus attract new competitors, based on the distribution dynamics of new delivery channels.

Brick and mortar investments are still significant for many financial institutions (FI's) through both owned and leased premises plus multi-million dollar new units that appear out of synch with current and future channel trends. So what are the variables and answers to re-engineer competing challenges for limited and evolving investments within an "omni-channel" environment? Our experience tells us that there are policy and practical solutions available for progressive customer-centric leaders.

(1) Organizational Integration: First, an organization has to ensure that all present and future channel developments and management are proactively handled by integrated leadership over all distribution decisions. You don't want to have channel silos, especially "bricks competing with clicks", for available capital allocations. Plus, include integrated technology enablers under the omni-channel mandate in order that, from a strategic and policy perspective, there is one delivery voice.

(2) Customer-centric Research: Second, a 3-5 year cycle of customer channel preference research, which focuses on present and future (5 year) preference trends and motivators, is the essential decision making foundation on which all channel analyses should be based. All strategic segments need to be evaluated and needs substantiated from the customers' perspectives.

(3) Channel Financial Analytics: Next, data from present channel performances and the trends indicated in your research findings, plus local market dynamics, such as segment sizes, market shares and potentials, need a holistic assessment using a profitability and preference matrix approach. This planning application will ensure that existing and future channel usage is assigned the objective return values.

(4) Business Intelligence Analyses: Finally, competitive information, technology and networks known or potential developments, economic-political-social scenarios, and business innovations need to be assessed and continuously tracked as external impact variables to be integrated with your internal financial data.

NOTE: Only with this strategic foundation of data and information can an organization then establish the appropriate parameters to judge all channel conditions, possibilities and future investment allocations. Under an omni-channel umbrella you have the basis for policy, strategic/business planning and leadership directions. Within this context, each contributing channel can be re-engineered/right-sized for the future benefit of the organization and its customers. Some key channel challenges will necessitate strategic transformation management responsibilities within a composite vision of the corporation's evolving business definitions and innovative endeavours. So let's honestly look at current channel segments in broad terms and consider some of the related challenges and opportunities.

(1) Branches, Stores & Centres: Physical units in the distribution universe will require objective realignments, renewals and right-sizing. General market dynamics today indicate a declining role for numerous physical premises for transactional and sales activities in any of the financial service businesses. Most markets and localities will change at different paces depending on core customer segments served and the organization's strength and effectiveness of development dynamics. In simplified groupings we have at least three segment strategies to execute moving forward.

   a. Abandon/Sell/Replace: Where financial and market data clearly identify units with declining or negative contributions management actions are necessary, keeping in mind public relations and competitive factors. Decisions could include closures, sales, consolidations or replacements with supplementary footprints/options ranging from small self-serve kiosks to mobile representatives and homepreneurs. Accepting the status quo is not a choice. Each unit should have continuous contributions to the institution and its customers today and in the future within the distribution business' targets.

   b. Collaboration Centres: There will be market areas where your individual business may not demonstrate appropriate performances or prospects for captive stand-alone stores. Some cases could be ideal to collaborate with other professional service providers where a composite model demonstrates profits and progressive growth for all concerned. In these centres there can be separate business modules, shared services (e.g. greeter function), self-serve options and captive or universal representatives. All partners would have an on-site community presence.

   c. New Templates: Every financial services organization should not expect a single floorplate design to satisfy different market, customer and the financial/social/economic needs of various localities.

Therefore an innovative inventory of approved core templates with various activity modules, which are interchangeable, should be developed. Historically types that previously evolved are full service, self-service & sales, specialty units e.g. seniors, university/supermarket, shared branches, business centres, interactive kiosks, etc. etc. The new models in an approved inventory should be particularly tailored to the brand and specific markets. The floorplates of necessity have to be significantly down sized investments.

(2) Contact Centres: Initially call centres with the 24/7 availability boomed as an important sales and service option which substituted for branch contacts to an evolving degree. But, in totality overall transactions and product sales multiplied- a result indicative with most new channel conveniences. Within the omni-channel culture these centres now have a more expanded role and we call them response centres. They support all channels i.e. mobile, online chats, emails, social media, and so on plus multiple businesses with transaction, service and sales/approval support.

(3) Online/Mobile Choices: For us "golden years" financial service professionals, it is hard to believe the awesome development and acceptance of Internet/online/mobile options which have exploded onto a virtual landscape. The exciting expanse of these convenient, customer-controlled channels and networks plus social media now dominate share-of-mind and use. This silent tidal wave storm has taken self-serve dynamics to a new and growing world of personalization for anyone and everyone. If an organization is not "in the know" with these technologies and is not investing wisely, the future will leave it in the past.

(4) Collaborations & Artificial Intelligence (AI): In early December 2016 we blogged on this critical subject and clearly indicated our belief that the elements therein will revolutionize businesses and lead to consumer consolidations and composite channel support across many businesses. AI is the new emerging reality! Cooperation, coopetition and all types of collaborations will integrate consumer experiences in a new holistic horizon.

The Distribution Future: The distribution business through life stage/event partnerships will reach a new level of sales and service but also customers will have more choice and control over their affairs than ever before. In democratic societies consumers and businesses will enjoy personal access to AI for aggregation, advice and action. Three decades ago we wrote and spoke on distribution being the key business for all FI's and retail trades. Well, the trends now exceed that earlier vision we had back then. Investments in your businesses, your channels, and your customer-centric culture have been implicitly integrated through technological innovations, networks, the cloud and dynamic leadership. Focusing on branch investments seems to be mundane, but essential, in our current state of affairs because distribution developments demand more attention and resources directed at a virtually connected future at work, at home and at play. Every organization will be competing for scarce resources especially in people who can be leaders, innovators, and collaborators on a scale we have never seen before. Unfortunately people which are not adaptable, scalable and sustainable in this exciting environment will be displaced with the bricks and mortar legacy.