BAIN & COMPANY

Results

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ARE YOU SENDING YOUR PROBLEMS OFFSHORE?

"Successful outsourcers ensure the key players within the organisation agree on the objectives of a project before handing it off to outsiders."

Patrick Demoucelle
Partner
Bain & Company

For too many companies, outsourcing has become a way to dump problem processes onto someone else. Managers understandably reach for offshoring as a cure for operational headaches and ballooning costs, rather than examine their organisation to diagnose and correct shortcomings. Offshoring is easier and usually produces some savings. But often, executives just end up transplanting inefficient processes elsewhere—and miss big opportunities to improve performance.

When Bain & Company examined outsourcing initiatives across manufacturing and service industries, we found that as much as 40% of a programme's benefits came from changing attitudes and behaviors within a company's own four walls.

Firms that invest first in boosting the performance of their current operations are in a much better position to make smart, strategic decisions about what to outsource and how. These three steps can expose underlying issues that impede performance:

1. Revamp business processes. Stripping out complexity and eliminating waste can pave the way to significant cost reductions. And to overcome deeper operational deficiencies, companies need to break down barriers that hold back information that should flow freely.

2. Reinforce credibility and trust. Companies often turn to specialised contractors to achieve challenging technical goals within tight

budgets. But reliance on outside suppliers may mask dysfunctional relationships between business units that don't work together effectively. Successful outsourcers ensure the key players within the organisation agree on the objectives of a project before handing it off to outsiders.

3. Find the scale-economy sweet spot. Managers trying to improve operations in today's customer-focused environment face two competing goals: pushing autonomy down to frontline teams and keeping a lid on costs. Companies can realise big economies of scale by consolidating some local activities and handling them at the regional or global level. However, no amount of reshuffling warrants holding onto non-core operations when a third-party supplier can get the job done more efficiently.

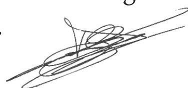
Enhancing capabilities

If, after analysing and improving your processes, you conclude that offshoring will provide additional benefits, the move will require more than placing interchangeable workers in inexpensive new settings. The challenge is to integrate new operations seamlessly so that a customer's experience is consistent each time he calls.

That's the strategy a global computer hardware and business services firm we'll call TechCorp pursued when it decided to shift operations from its high-cost base in Germany to Poland. TechCorp will use lower-cost workers in Poland to provide back-office human resources and credit-card processing services for customers in Western Europe.

But the company also plans to use its new low-cost location as a launch pad for growth in European Union member states in Central and Eastern Europe. TechCorp will invest 37,6 million euro to hire and train 1.000 employees in the company's distinctive corporate and brand identity, developing one virtual face to show all its customers.

While not a panacea, outsourcing can be a central piece in a broader effort to improve operations. Successful organisations keep it as part of the change-management mix, continually re-evaluating how functions, processes, and site-selection and sourcing decisions fit together to create strategic advantage.



Patrick Demoucelle
Partner

In this holiday season, we at Bain & Company would like to extend our warmest greetings to our network of partners, friends, clients and their families.

We wish you a healthy and fulfilling year 2007 and successful growth for many years to come.

IT POWERED GROWTH – HOW TO PULL OUT OF AN INFORMATION

"Most companies struggle to realise IT's potential; 60% say IT has inhibited their growth."

David Shpilberg
Partner
Bain & Company

"IT leaders try to 'fix' IT with massive investments that are doomed to fall short."

Cédric Lebegge
Manager
Bain & Company

With interest rates at 40-year lows, growth for real estate lenders was brisk. But at a leading US bank, the mortgage unit wasn't pulling its weight. Its information technology organisation, perceived as having failed to deliver on a string of projects, had lost the confidence of senior executives. IT spending had fallen 40% below the industry average. When mortgage lending took off, the bank's aging systems could not match competitors' quotes and programs. Frustrated, managers had no choice: the IT team was cleared to build the necessary mortgage system—in a 75 million euro multiyear project.

Like pilots who fly through bad weather and lose all sense of the horizon, companies can slip unsuspectingly into a downward technology spiral. Trouble usually starts with a chain of miscalculations: An IT project veers off course, undermining confidence. Investment in IT falls and infrastructure takes a back seat to getting new features out the door. Eventually, the organisation views IT as a hindrance rather than a help in hitting growth targets.

Buckle up—there's turbulence ahead

To better understand how IT contributes to revenue growth, Bain & Company recently surveyed 362 senior business and IT executives around the world. The vast majority—more than 70% of the respondents—agreed that IT spending is essential for growth.

Yet, most struggle to realise IT's potential; 60% of the respondents agreed that IT has been inhibiting their growth. (See figure 1.) Even among IT believers, 29% report that their IT capabilities today actually inhibit growth in most business areas.

Why do organisations lose their IT bearings? Interviews with senior executives, including chief information officers, revealed the answer: Over and over, the executives described a pattern of self-perpetuating IT and business project failures that eroded their confidence that they could spend effectively.

Often, IT leaders and senior executives respond to this pattern by trying to "fix" IT with massive investments that are doomed to fall short. In our experience, the best way to restore trust is to identify a

To see if your company is headed for an IT-powered tailspin, take the quick self-assessment quiz on page 7.

single growth initiative that relies on IT, gain the support of the business unit sponsoring it and focus on making it a success.

Pulling out of the IT tailspin

Three principles can help companies spot the right initiative: First, the project must relate directly to business growth. Second, the executive responsible for the relevant business unit, not the CIO, must "own" the project and commit to its success. Third, the project must take no longer than 12 months to complete.

The results can be dramatic. Consider, for example, how brokerage firm Charles Schwab recently changed course and regained confidence in IT-powered growth. Schwab executives had long viewed technology as a source of competitive advantage and consistently backed IT with budgets that, at 12% of revenue, far exceeded industry averages. But pressure to deliver new applications drew funds away from projects to refresh infrastructure, address outdated legacy systems and cut complexity. The result: Schwab's IT organisation found itself wrestling with longer delivery times and higher-cost projects.

To restore the balance, an IT project called the Cambridge Initiative was launched. It focused on providing customers with a state-of-the-art computing utility for online trading and portfolio analysis. The project attacked head-on the IT infrastructure clutter that had caused operating costs to escalate and response times to slow down. Critically, it was led by the Individual Investor unit, which stood to gain the most from the project's success, to ensure that the business team and the technology group closely together on the requirements. Schwab earmarked 37,6 million euro to transfer the processing of trades from the firm's mainframe environment to a more flexible platform.

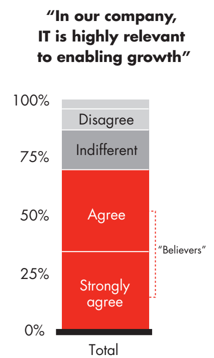
In its first 12 months, the alliance between the business unit and the IT team went a long way toward restoring trust in IT's contribution to profitable business growth—and instilling a sense of shared destiny among the IT and business organisations.

Staying on course

It doesn't always require a project with a broad reach to pull IT organisations out of a stall. The key is to find an initiative that

Figure 1:

Most companies believe that IT is required to enable growth…



… but 60% say IT creates growth bottlenecks.

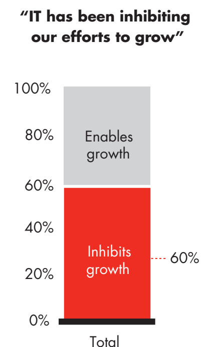


Figure 3:
The growth-inhibiting vicious cycle

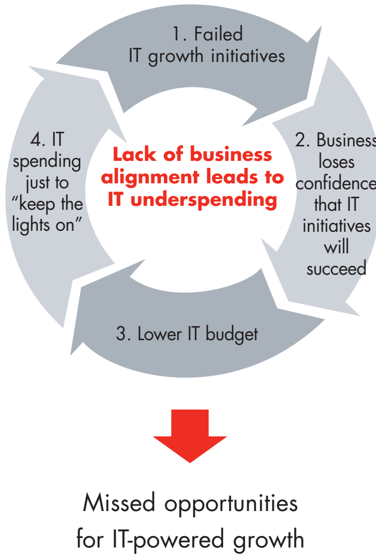
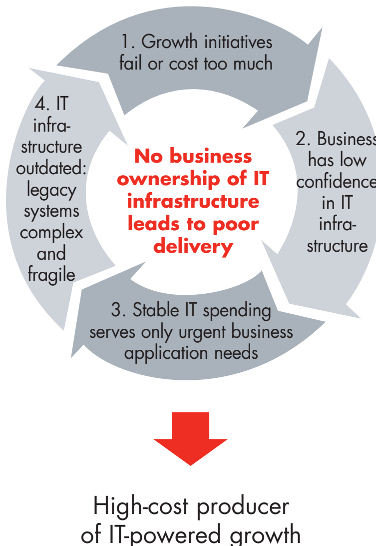


Figure 4:
The "believer's" vicious cycle



establishes a winning precedent for future growth; scale is secondary.

Once trust has been restored, companies must remain vigilant. The alignment between IT and the underlying businesses it supports is inherently unstable and requires constant adjustment to keep IT on course with business growth goals. As IT becomes more integrated with the rest of the business, however, companies will no longer have to concern themselves as much with tailspins and can focus more on soaring.

Self-assessment quizz:
Is your IT growth engine sputtering?

Companies can ask these basic questions to determine whether IT capabilities are contributing to—or hindering—their growth.

1. Is your total IT spending below or above the average for your industry?

(Clearly below – 1 point; average, 2 points; clearly above, 3 points)

2. What share of your IT budget is spent on new capabilities?

(0-10%, 1 point; 11-35%, 3 points; above 35%, 4 points)

3. Who decides the size of your IT budget?

(Your company's business units, 1 point; business with IT input, 2 points; IT alone, 0 points)

4. Is your company satisfied with its IT capabilities and services?

(Not at all, 0 points; yes, with prominent exceptions, 3 points; yes, 5 points)

5. Is your IT organisation familiar with—or consulted on—your business's growth strategy and initiatives?

(Neither familiar nor consulted, 0 points; familiar, 3 points; familiar and consulted, 5 points)

6. Do you consider your competitors' IT superior to yours?

(Don't know, 0 points; in just a few areas, 1 point; usually not, 4 points)

7. Does a business team have a major role in each IT project, including infrastructure and software?

(Rarely, 0 points; just for key projects, 3 points; always, 6 points)

8. Does your IT team quantify the return on investment of its projects?
(Rarely, 1 point; where possible, 3 points; always, 4 points)

Here's how to evaluate your totals:

A score of 4-14 means that fundamental IT performance and capability issues are inhibiting your company's growth.

A score of 15-20 means that IT is not powering growth and is performing poorly.

A score of 21-30 indicates your IT organisation is not powering growth, despite business leaders who are IT "believers."

A score above 30 means the IT and business teams are successfully working together to achieve growth.

IT FULL POTENTIAL DIAGNOSTIC

We close this year's tour of the Bain toolkit by exploring our Information Technology capability.

Description

Bain's IT full potential diagnostic is a set of tools that quickly assess a company's IT capability. It tests IT's alignment with business strategy and points to ways to maximise IT efficiency and effectiveness. Companies can use the diagnostic during change initiatives and at any time they want IT to capture more value.

Bain's differentiation

With no vested interest in selling specific IT components, Bain objectively helps CEOs answer the most critical questions about their company's IT capability:

- Is IT aligned with our business priorities?
- How can IT be simplified?
- Should we use alternative sourcing?
- How do we ensure that IT delivers maximum business value?

Bain's approach

Bain helps IT leaders not only develop a better understanding of how technology furthers business strategy but also create stronger relationships with their top management. We augment that work with a rigorous analysis of the return on IT spending, the technologies that drive cost and competitive advantage for the company, and the effectiveness of IT processes.

Component	Description of diagnostic objective
Business alignment	Gauge the alignment of IT to business strategy and the effectiveness of IT (business and end-user satisfaction)
	Assess current and planned project portfolio for fit, alignment and effectiveness
	Gauge the spend on IT relative to industry peers and best practices
	Assess the effectiveness of the current organisation structure and governance mechanisms
Complexity management	Assess organisation's application portfolio for opportunities to improve effectiveness and efficiency
	Gauge technical architecture, diversity, effectiveness and alignment to business
Outsourcing & offshoring	Assess the effectiveness of current sourcing strategies and identify incremental opportunities
	Assess client's capabilities in managing its outsourced functions and effectiveness in meeting outsourcing objectives
	Understand the organisation's ability and effectiveness in managing "insourced" functions
Value delivery	Evaluate the organisation's ability to capture value from IT-enabled business initiatives
	Measure the organisation's track record in capturing the forecasted benefits on past and ongoing initiatives

IT full potential diagnostic

BANKING ON THE CUSTOMER

A talk with Yves Delacollette, Chief Executive Officer, Deutsche Bank Belgium

Deutsche Bank is a leading global investment bank with a strong and profitable private clients franchise.

A leader in Germany and Europe, the bank is continuously growing in North America, Asia, and key emerging markets.

The group in figures:

- 1058 billion euro in assets.
- 65,435 employees from 130 nations.
- Operations in 73 countries.

For many financial institutions, it might have been a public-relations disaster: a newspaper headline screaming that 75% of Belgians believe banks "think only in their own interests." But for Yves Delacollette, CEO of Deutsche Bank Belgium, it was a challenge worth rising to. By midday he had assembled his marketing team and was planning the bank's response: an ad, run the next day, that featured a clipping of the headline followed by Deutsche Bank's reply. "All banks?" it asked, before responding with a list of concrete ways the bank acts in customers' interests. We talked to Delacollette about his hands-on approach to customer relations.

Ten years ago Deutsche Bank was mainly a retail banking operation. How has it changed?

"We're now mainly an investment bank, ranking number two in revenues behind Goldman Sachs. Today, the corporate and investment banking business represents over 70% of our bottom line. Also, 10 years ago, 70% of our revenue was generated in Germany; compared to 30% today."

You have a relatively small presence in Belgium. How do you fit into this market?

"Deutsche Bank wants to become the leading corporate and investment bank (CIB) in the world. But we also want to have a solid presence in the retail business in chosen markets. In Belgium, we have a situation that is the reverse of our global one. Here, retail represents 70% of our business and CIB the other 30%. In Belgium, we're a niche player. But that doesn't mean we're marginal; in the niches where we decide to be active we want to be leaders."

What are some of your key niches?

"Deutsche Bank is one of the few players that invested heavily in transactional banking, such as international payments, cash pulling, hedging of currencies. We're also seen by corporate customers as one of the best suppliers in risk management. What a lot of people don't realise is that one of our most important customer groups is the financial industry itself, including other Belgian retail banks that are our competitors."

How do you stand apart from your competitors in the retail segment?

"Belgium is the most over-banked country in Europe. When we

started business here we had to clearly differentiate ourselves, because nobody needed us. And to us, retail is detail. In this business, while strategy is important, execution is key. Now, people can't believe it when I tell them we have seven times more customers per branch than other banks. That our average customer invests three times more with us than with our competitors."

What is your strategy for delivering on that execution?

"I'm permanently looking at and managing three things. First, we maintain strong control over our products, our customers and the channels we use to reach them. Second, we constantly focus on customer satisfaction. I know everybody says that, but not everybody delivers. We monitor customer satisfaction carefully, systematically. There is no other option than to rank the highest in our market—clients don't need just another retail bank. Last but not the least is employee commitment. We're in a people business. Especially with the challenger position we have in Belgium, we can succeed only when all our employees really "own" the philosophy of the bank and live the values in everything they do.

A concrete example: I will never ask financial advisers to care about the profitability of the bank. That's not their job. The job of the advisers is to ensure that the customers are delighted about their interactions with the bank and the services we provide. The profitability of the bank should not be one of their worries."

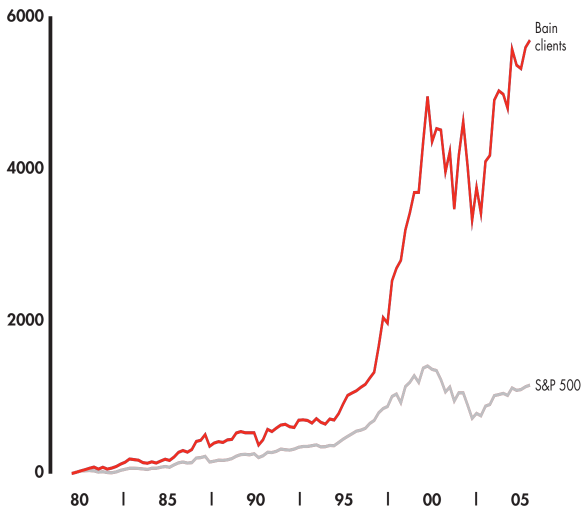
Interview conducted by Craig Winneker

Yves Delacollette

- CEO and Country Manager of Deutsche Bank Belgium since 2000.
- Joined Crédit Lyonnais as Head of Retail Network in 1990.
- Began his career at S.N.C.I. in 1984.

Making companies more valuable

Bain clients outperform the market 4 to 1.



Note: Methodology and data are attested by PricewaterhouseCoopers through December 2005

Bain & Company is one of the world's leading global business consulting firms, serving clients across six continents on issues of strategy, organisation, mergers and acquisitions, performance improvement, information technology and change management. It was founded in 1973 on the principle that consultants must measure their success in terms of their clients' financial results. Bain's clients have outperformed the stock market 4 to 1. With offices in all major cities, Bain has worked with more than 3,300 major multinational and other corporations from every economic sector, in every region of the world.

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Bain & Company Belgium, Inc.
Blue Tower - 24th Floor
Avenue Louise 326
B - 1050 Brussels
www.bain.be

For more information:

Anja Wittrup
Tel: 32 (0)2 626 2612
anja.wittrup@bain.com

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