

Reducing Performance Vulnerability

The weakening of consumer confidence throughout last year, accelerated by September 11th, left many companies struggling to realign their cost base to a smaller market.

Industries such as electronics, airlines and several finance sectors were left staring at high costs, plummeting profits and heavy negative cashflow. Suffering worst are those that are unable to adjust their fixed costs in line with the market. This is not new, other events have triggered similar economic slides and it is bound to happen again.

With our experience of this, PSM has developed an effective programme to help companies:

- diagnose areas of vulnerability
- restructure, either for short-term survival or to become fit to ride the next inevitable economic cycle.

The principle behind our approach is that there are areas that have a disproportionate impact on cash and profit generation (or dissipation).

Step 1 - Finding where to focus

By simulating fluctuations in markets we can demonstrate the vulnerabilities in the operating performance of the business. We can predict with some certainty where and why performance degradation will take place. This immediately brings into focus the few areas that demand attention. We also identify where close management control is vital to reduce the variability in performance - lifting predictability.

Step 2 - Identifying and confirming 'root causes' of vulnerability

By drilling down into these critical areas and using benchmark templates, we are able to bring into focus the root causes of such business performance vulnerability. Also, we are able to show the priorities for action based upon the impact on performance and the speed of resolution (Figure 1).

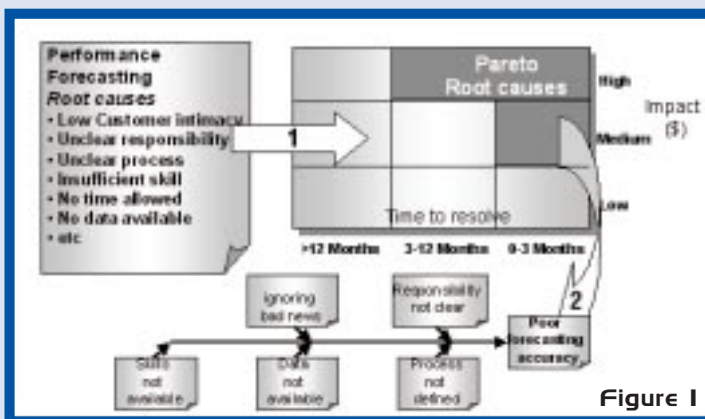


Figure 1

Step 3 - Developing countermeasures / solutions

The identification of countermeasures and long-term solutions in the areas of vulnerability is an iterative process. We start by defining the situation that would minimise performance vulnerability. This often involves higher levels of outsourcing, a ruthless translation of fixed costs into variable costs and major changes in the key processes that steer the business. The 'performance resilience' is carefully measured through simulation and the countermeasure and solutions adjusted to achieve a balance between the benefit and the severity of the change.

Step 4 - Implementing the improvements

Usually the extent of change is significant and therefore we insist on limiting the number of major change projects. Change or initiative overload creates severe dilution of focus. The number of initiatives is often inversely proportional to the ultimate benefit achieved.

This part of the journey towards reducing performance vulnerability requires the sound application of well known (but poorly applied) project management techniques namely:

- Clear charters for each of the projects
- Full time project leadership for each project
- Regular progress reviews using simple fact-based visual reporting
- Implementation management process which flushes out issues and risks, structurally plans, then implements both mitigating and contingency action

The next economic downturn is a certainty, why and when are uncertain. However you can prepare for it! Contact us to find out more about Reducing Performance Vulnerability.



Louise Wickham

New faces at PSM Consulting

New players on the team who will be providing insight in future issues



Jacki Fullman
PSM's Office Manager, brings with her over 6 years professional administration

experience from a blue-chip investment banking background. Jacki is tasked with overseeing the day-to-day management of our financial and personnel activities and ensuring the smooth running of our operation. She would be happy to assist you with any queries you may have.



Stephen Mathews
Stephen has more than thirty years' experience leading people

development and corporate organisational improvement programmes. Stephen's particular area of expertise is helping people to improve the way they manage relationships to improve performance. Using his unique skill set with board members, senior management teams, and individuals, Stephen enables successful organisational culture change, high performance team development and leadership skill improvement.

Could your photograph be here?

Do you have the skills and experience to...



'Make a difference'

If so, please eMail your CV to:

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Insight

Driving Strategy into Results

Practising what we preach

During our 8th year we have completed our own 'business transformation' project, and yes we have used consultants to help.

Having realised that those of us with the longest service have become the least objective, we decided to exploit the skills of our most recent recruits to challenge our established ways of working and to recommend opportunities for improvement.

As a consequence we have all been reminded of just what it is like to be on the receiving end of a consultant's recommendations!

Nonetheless, despite some discomfort at having to take our own medicine, the experience has been both stimulating and beneficial, and hence we have decided to highlight some elements, which we believe will be equally applicable to many of our clients' businesses. They include the following:

Bottleneck management

Historically our directors have primarily undertaken the roles of building and managing our relationships with clients and the definition and planning of new projects. However, as the business growth has gained momentum, the number of directors' hours has effectively

remained fixed and the bottleneck has become evident. Looking at the options, neither the further extension of already long hours nor the constraint of business growth were acceptable solutions. Therefore, we decided to address and alleviate this bottleneck by encouraging other members of



the team to undertake extensive account management training and to begin to take responsibility for the management of a greater proportion of our client relationships. Although this process is still unfolding, the benefit is already becoming apparent as we see our order book continuing to grow. Equally importantly, we are seeing individuals enjoying the challenge of new and more varied work whilst our old warhorses are starting to remember what a night's sleep is like!

Cost management

The cost of real estate is an increasingly common issue in many of our projects as clients become more aware of the large sums spent annually on providing workspace for staff.

Put more simply, there is a growing realisation that much of the historically created housing costs could be channelled into bottom line profit instead. Our search for an optimum solution for ourselves resulted in moving our head office into central London. On the face of it one might think that moving into London, when many companies are moving out, would increase costs rather than reduce them. It is not always so. The reality is that most office space is used for a small fraction of the week, yet is being paid for 24 hours per day, 365 days per year. Greater flexibility and cost control can be achieved by only paying for the hours and space that you use and an increasing number of landlords are offering "super-flexible" solutions. The net result for PSM is that we have moved to a London location, with access to hundreds of other high quality offices throughout the world, but paying only for the space we use, as we use it. With only a small fixed fee we have made 95% of our office costs variable and gained maximum flexibility in location and capacity. Moving into London has actually saved money!

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Market development

With our longer serving consultants having strong backgrounds in manufacturing and distribution industries, these sectors have provided something of a comfort zone for many of us. However, with several of our newcomers having experience from the service sectors, our work in these areas has been growing significantly over the last couple of years. Looking back we now question why the comfort zone was so established. It was based more on presumptions than hard facts. Now we better understand these sectors we know that the differences are minimal. Indeed the differences between two businesses operating in the same sector are often more than those between sectors. Furthermore, it is interesting to note that two recent projects with service sector clients were won largely due to our track record within manufacturing. The breadth of business experience has been seen as a mechanism to maximise "out of the box" thinking that narrower sector coverage may not achieve. In PSM it has taken new blood with experience and interests outside of our old comfort zone to bring about this awareness!



Keith Eagle

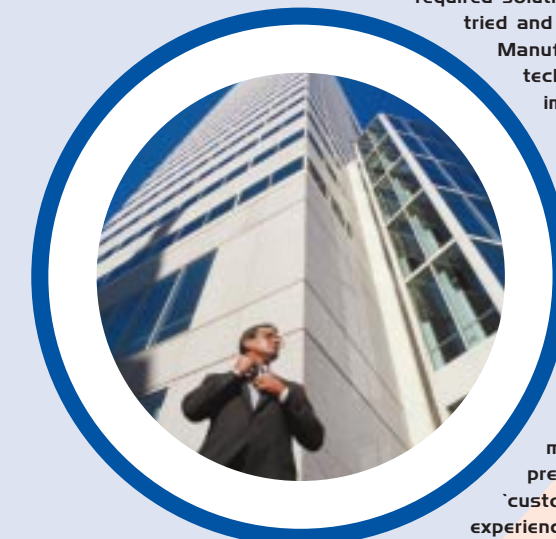
Issues facing the Finance sector

Is the Finance Sector really that different from the Manufacturing Sector?

In a recent project, the Finance Sector team within PSM were asked to identify the most common issues facing the sector. We came up with an impressive list of some 20 factors, which were distilled down to the following 6, which we believe to be those most regularly occurring within the sector:

1. Improving Call Centres & Back Office processes, efficiencies & organisation structures
2. Management of physical cash in the rapidly consolidating world of retail banking
3. Managing mergers and maximising integration rewards
4. Enabling and benefiting from Remote Working
5. Improving strategy development
6. Improving Business Excellence

Having established the most widespread issues, we invited our Manufacturing colleagues to share with us their long-standing experience of dealing with similar issues. The discussion and conclusions that followed demonstrated clearly that despite the title of the issue, (eg Cash Management), the underlying causes and the required solutions draw upon tried and tested Manufacturing techniques (eg improving factory efficiency).



1. Call Centres & Back Offices

Starting at the 'front end', there is much debate at present about the 'customer experience'. As customers ourselves, we all know the frustration of dialling a customer service number to be faced with a confusing array of

menus, buttons to press and decisions to make before speaking to a real person. When we eventually do speak to a human being, he/she is often in another part of the world and incapable of dealing with our individual issue. (You might try 'phoning your own company's number some time to see how you fare.....!)

Moving through the organisation, how many separate pieces of paper are generated in various back-office functions, which add no value to the process and only serve to add cost and slow down the flow of work? The situation is compounded, of course, if there has been a recent merger/acquisition/integration and the individual call centres or back offices do things differently, or worse still, in conflict with each other.

We have faced this situation with manufacturing clients, with whom we have developed Call Centres and Back Offices. The starting point, whatever the industry, is to take a business process view of the current situation, to map it, measure it, compare with known best practice and provide fundamental challenge. The results are faster, slicker, more customer-friendly and lower cost solutions.

Whatever the product or service being offered, via a bank or a factory, there is a surprising similarity in the opportunities for process improvement. Therefore our proposed approach is similar.... and the results just as beneficial!

2. Cash Management

Retail Banks are facing ever-increasing pressure to process more cash centrally, faster and at lower cost. In most cases the procedures followed at centralised cash centres have merely been 'lifted' from the high street branch as they existed

before cash processing was centralised. The resultant labour-intensive processes, which were fine for the low volumes of cash in a high-street branch, are hugely inefficient when dealing with the volume of cash flowing through a modern centralised cash centre.

The parallel in Manufacturing is the tendency to migrate small-batch manufacturing processes into high volume superfactories. Competitive pressure from the far east forced higher efficiency which in turn resulted in changes to the manufacturing processes. PSM has masses of experience of this in manufacturing and in cash management, where we can say with confidence that with comparatively little investment, double-digit percentage improvements are possible in processing volume per employee through process optimisation.

The issues faced in Cash Centres have thus proved to be remarkably similar to those in Factories and the solutions are highly transferable.

3. Mergers and Integration

There has been plenty of this in Financial Services in recent years, and the indications are that there is more to come. Whatever the label (merger, acquisition, take-over....) the issues are the same, and often unforeseen. It is asking a lot for two dissimilar organisations to come together in perfect harmony. Even if there is synergy and theoretical logic to the 'coming together', there are many practical issues to face:

- Vision & strategy delivery
- Product/service rationalisation
- Organisational restructuring
- Business process integration & optimisation
- Channel integration
- Programme and project management
- Managing change & maintaining pace
- Cultural change

We have worked with organisations facing several of these simultaneously and are currently working on a large assignment - helping to integrate two global businesses with diverse cultures and working practices. We are highly respected on this job for our willingness to 'roll our sleeves up' and become involved in making the changes happen. (We don't just write reports!)

Getting it right can be highly lucrative; whatever the sector, and getting it wrong can be just as costly!

4. Remote Working

Those Financial institutions who are wrestling with integrating organisations in different locations know the costs and frustration of project teams moving from location to location:

- There are increasing demands from both staff and government putting pressure on working hours
- Call Centre staff often work from home but feel isolated
- Since September 11th, companies have severely restricted travel
- The cost of prestigious city-centre HQ buildings continues to escalate.

If you recognise some or all of these, you will not be alone. Tele-working or Remote Working is not new. Reducing business travel provides a short-term solution but fails to address the fundamental issues. One of our Manufacturing clients said to us recently:

"we've cut transatlantic travel by 80% and the business has not suffered at all"

Whilst this may be true in the short term, it is not sustainable because processes and structures have not been adapted to cope with the change. It is likely that if nothing is done about it, sales and new product development

will dry up or travel costs will re-emerge once more.

PSM's approach, Future Working, tackles this issue holistically by focusing on costs by engineering a set of processes, structures and systems to respond to the requirements listed above. The last issue of Insight covered this in more detail, and in summary Future Working challenges:

- Housing costs ("why have a large office when people don't need to be there?")
 - Commuting ("why waste time and money when work today is what you do, not a place you go to?")
 - Business travel ("why travel when there are more efficient ways to meet and collaborate?")
- and delivers higher productivity, lower fixed costs, reduced operating costs, more balanced lifestyles and increased profits, whatever the business context.

Whatever the sector, if people are working together in project teams and need to travel, or if people commute to jobs that could be done at home, Future Working provides huge cost saving solutions.

5. Strategy Development

Most Financial institutions have a regular strategy review, often professionally orchestrated by an internal Strategy function. Impressive strategy documents result, showing both the strategic aims and the tactical plans for delivering these aims, together with financial analyses and predictions.

Whereas there is nothing basically wrong with this, the feeling is "so what?" There is a risk that the embedded strategic process can become too mechanistic, can lack entrepreneurship, can lack challenge and true vision and can perpetuate the 'organisational silo' approach, which often results in missed cross-functional opportunities.

Our 'six-page strategy' process is a refreshing alternative, because it starts with a clean sheet and challenges the organisation to describe it's 'stretched' ambition. It then takes the Board through a set of workshops and project groups to:

- review the external and internal drivers facing the organisation
- develop a new strategy for these drivers and ambition
- design a deployment mechanism to deliver the strategy.

This approach has been used to successfully refresh or develop hundreds of strategies in organisations of all types (Financial and non-Financial, Manufacturing and Service sector) and once again shows that financial institutions' needs are no different to others.

6. Business Excellence

Most large Financial institutions, like their colleagues in Manufacturing and other sectors, have a Business Excellence (BE) programme in place. The usual driver for this is business improvement. Although the BE framework is good for diagnostic and benchmarking exercises, it is not always clear how to deliver the necessary improvements.

Our **DRIVE** product embraces the principles and measurement framework of the BE model and puts it into a mechanism designed to deliver improvements in a structured way. In the same way that a steering wheel and accelerator pedal in a car provide direction and pace, **DRIVE** provides the direction and focus which is often lacking in standard BE programmes. In addition, **DRIVE** tackles traditionally tricky areas such as cultural change and disaster recovery.

We have had major successes with Manufacturing organisations who have applied **DRIVE** to their BE programmes

and gained significant improvements. From our analysis of BE programmes in Finance organisations, we know that similar gains can be made by applying the **DRIVE** methodology.

As you can see, as a result of this work, we concluded that these issues apply to most sectors - the differences between Finance and Manufacturing are largely semantic. Furthermore, our experience applying Manufacturing solutions to



Finance organisations shows that the potential benefits are greater, because the Finance sector to date has experienced less global competitive pressure to improve.

PSM's willingness and ability to help, and our ability to roll up our sleeves and get 'stuck-in' delivers real benefits across most sectors. Most sector boundaries appear to be largely artificial.



Stephen Herbert